THE CO-OPERATIVE MOVEMENT IN BENGAL

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By

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PREFACE

The publication of the *Report of the Maclagan Committee* was an important event in the history of the development of co-operation in India. For nearly a quarter of a century the recommendations embodied in this report have played a decisive part in shaping co-operative policy and programme. But the crisis through which the movement has passed, owing to the collapse of agricultural prices, has made many of the observations of the Maclagan Committee obsolete. The time has, therefore, come when the position should be reviewed once more by an expert Committee and the main lines of future development authoritatively laid down. An essential preliminary to such an undertaking is an intensive study of different phases of co-operative activity in various parts of India. The purpose of this book is to throw light on the working of co-operative credit and marketing societies in Bengal, so as to prepare the way for more enlightened plans for improving agricultural credit facilities.

I take this opportunity of expressing my indebtedness to those who had given me facilities for studying the subject. I should be failing in my duty if I did not specially acknowledge the assistance received from Mr. Aswini Mohon Ghosh, B.L., Secretary, Jamalpur Co-operative Central Bank. My thanks are due to Mr. S. K. Lahiri for his courtesy in giving me access to the library of the Bengal Co-operative Organisation Society, Calcutta. I must also express my obligations to Mr. Tarapada Chakrabarti, M.A., a former pupil of mine and a research scholar in the Department of Economics,

for assistance in the preparation of the tables and graphs used in this book.

I should, however, add that none of these gentlemen is responsible for opinions expressed in these pages.

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CHAPTER I

INTRODUCTORY

It is now widely recognised that there is no one single panacea for the relief of agricultural indebtedness. The magnitude of the evil is so great and the difficulties in the way of dealing with it are so numerous that a simultaneous attack has to be launched from several directions with a view to bringing a substantial measure of relief to the ryot. Several provinces in British India have enacted measures to regulate usurious rates of interest charged by moneylenders. In other areas debt conciliation boards have been set up to bring the indebtedness well within the repaying capacity of the agriculturists. All these measures are useful in their own way. But they have to be supplemented. For a comprehensive scheme of debt relief must not only include measures for mitigating the burden of existing debts, but also aim at preventing the ryot from getting into debt again. The co-operative credit movement seeks to attain this end by regulating the ryots' borrowing so as to confine it, as far as practicable, to productive and profitable uses. Frederick Nicholson pointed out many years ago that the aim of the co-operative village banks should be to supply credit which is "controlled, heedful and productive".

There are in Bengal three different co-operative agencies dispensing agricultural credit. The land mortgage banks, which have been inaugurated within the last few years as an experimental measure, have for their object the liquidation of ancestral debts by the

grant of mortgage credit. We have also a number of production and sale societies granting credit so as to enable the villager to obtain a better price for his produce such as paddy, milk, fish, or cotton textiles. But the bulk of the societies are village credit banks which should supply seasonal credit to the ryot, thus enabling him to finance seasonal agricultural operations. All these agencies, although they differ from one another in regard to the type of credit they dispense, have one feature in common. They combine the resources and responsibility of several members with a view to the creation of an asset on the basis of which capital may be obtained from lenders.[1] This asset is analogous to good-will, on which joint-stock industrial organisations rely for attracting the savings of private investors.

During the years immediately following the inauguration of the co-operative movement in India high hopes were entertained by its sponsors. It was confidently asserted that, apart from the substantial economic advantages which would accrue, successful co-operative societies would encourage the growth of corporate village life and thus take the place of the old village community which has disappeared completely from the country. The people, once free from the load of debt, would begin to have a wider outlook on life and take a keener and a more healthy interest in everything that concerned the village life. The lapse of time and an acquaintance with the realities of the situation have dispelled the exaggerated notions about the possibilities and importance of the co-operative movement in India. Nevertheless there remains in this country a deep and abiding faith in the gospel of co-operation. Even those who are inclined to be pessimistic, alarmed at the devastation wrought by the slump of 1929,

[1] Compare *Enfield Report on Agricultural Credit*, p. 6.

realise that, wisely directed, the movement is fraught with possibilities for good which cannot be exaggerated.

The main landmarks in the history of the movement are fairly well known, but will bear recapitulation. Village credit banks were established under the Co-operative Credit Societies Act of 1904 on the initiative of the Government and under official patronage. As these banks were too isolated to come into touch with the money market, need was felt for an agency which would supply the rural societies with necessary capital. The Co-operative Societies Act of 1912 provided for the establishment of such agencies formed by federating the village banks. These were the Central Banks, which not only secured the necessary capital for village banks but made arrangements for their supervision and inspection. Further progress along the path of wider centralisation took place in 1918, when the Bengal Provincial Co-operative Bank was inaugurated. It was the apex co-operative bank of the province that enabled the Central Banks to play their part with greater confidence and success. It secured an outlet for the surplus funds of Central Banks and at the same time assured them of financial support in times of stringency. In 1907 there were only 222 village and urban societies with a membership of 6483 persons and a working capital of Rs. 2,41,887. In 1936 societies numbered well over 23,000, with a membership of more than 800,000 persons and a working capital of nearly Rs. 19 crores. The increase in numbers has indeed been striking.

But if mere numbers were any criterion of progress, the Bengal co-operative societies would be prosperous. The qualitative estimate based on audit classification shows that there has been a steady and continuous deterioration in the quality of these societies ever since

1917. In that year the proportion of "good" and "fairly good" societies was nearly 10 per cent. In 1935 this proportion had sunk to a little over 2 per cent, while during the same period weak and inefficient societies multiplied to an alarming extent. The watchword of those responsible for the initiation and development of the movement has all along been expansion. In their zeal for expansion they failed to consolidate the position already gained. For consolidation was usually regarded as synonymous with stagnation, or even retrogression. It was only to be expected that in such circumstances inauguration of societies in haste should be followed by liquidation at leisure. It is a misreading of the history of the co-operative movement of the province to suggest that the world-wide depression of 1929 is chiefly responsible for its general deterioration. As a matter of fact the seeds of decay had been sown broadcast very early in its career by a disregard of those rules of prudent finance and efficient administration on which the co-operative movement must necessarily rely. It may be asserted with confidence that the slump of 1929 would not have paralysed co-operative credit but for over-financing, which had been practised on a large scale, and the virtual absence of any check, internal or external, on the activities of rural societies. Committees of management, usually apathetic but stirred to a brief period of activity when loans are doled out, staff of supervisors woefully inadequate for the purpose of effective control, and a failure on the part of those responsible for guiding policy to enforce their own departmental circulars in spite of repeated violations by village societies and Central Banks of the injunctions contained therein — these are among the contributory causes that are responsible for the setback in the movement.

The task of reconstruction has now been taken in hand. An essential preliminary to this endeavour is perhaps the liquidation on a large scale of the thoroughly inefficient societies that impede progress. The efforts that are being made to rehabilitate the village credit societies are now based on a proper realisation of their limitations and handicaps. It is no longer regarded as their function to tackle the whole problem of indebtedness of the ryot. That must be done by specialised institutions more suited to the task and with ampler resources, leaving to the village credit banks their primary function of supplying seasonal credit. It would, however, be a mistake to expect that co-operative credit societies, even if reconstructed on a more rational and scientific basis, would provide the chief remedy for agricultural indebtedness. The Bengal Banking Inquiry Committee came to the conclusion that the agricultural indebtedness of the province stood at Rs. 100 crores. The Bengal Board of Economic Inquiry estimated that there were in the province 50 lakhs of agricultural families with a permanent and heritable interest in their lands having a total debt of Rs. 97 crores. These estimates have to be judged in relation to the total working capital of primary agricultural societies amounting to a little over Rs. 6 crores. A consideration of these figures will show that as yet the *mahajan* has little cause for anxiety or alarm on account of competitive lending by co-operative societies. As a matter of fact the reports from various Commissioners of Income Tax do indicate that in most of the provinces the co-operative societies have made little headway in displacing rural moneylenders. One of the remedies for rural indebtedness must therefore lie in bringing the individualistic *mahajan* into the co-ordinated system that operates under the control of India's Reserve Bank,

so that capital so vitally necessary for the country's agriculture may be available at low rates. And it is to this task of bringing the indigenous bankers into the pale of organised banking that the Indian Reserve Bank must address itself. Debt "conciliation" also can at best be a heroic remedy necessary and useful at a particular stage in the life of a community. Like schemes for capital levy suggested for reduction of national debts of post-war Europe, debt "conciliation" can only be a non-recurrent emergency measure. But all such remedies for alleviating the burden of indebtedness, whether along individualistic or co-operative lines, should form only a part of a larger plan of rehabilitation of agriculture and cottage industries. Indebtedness, it is often forgotten, is both a cause as well as a consequence of poverty. Measures for the relief of indebtedness, however well-intentioned, can only be in the nature of a palliative if they are not accompanied by a comprehensive programme having for its object the improvement in the economic position of the cultivators.

CHAPTER II

PRIMARY CREDIT SOCIETIES

(1) AGRICULTURAL

THE primary credit societies are divided into two classes, agricultural and non-agricultural societies. This classification dates from 1913. Agricultural credit societies are all on an unlimited liability basis, while the non-agricultural credit societies, or urban societies as they are called, are either limited or unlimited liability societies, the number of the latter being comparatively small. In 1935 out of over 23,000 societies of all kinds in this province agricultural credit societies numbered more than 19,000 with 450,000 members and a working capital of more than Rs. 5,84,00,000. The agricultural credit societies thus form the real foundation of the co-operative credit structure, and the study of the co-operative movement of this province is virtually a study of the working of these societies.

A number of societies based on the Raiffeisen model existed in the province even before the Co-operative Credit Societies Act of 1904 was passed. These were organised mostly by Government officials. Private persons imbued with zeal for co-operation also lent a helping hand.[1] Of the societies that came into existence before 1904 three had managed their affairs so well that they were registered under the Act of 1904

[1] Mention may be made of Mr. (now Sir Daniel) Hamilton, who assisted in the organisation of such societies and helped the movement financially.

without any difficulty. The table given below sets forth the material facts relating to such societies :

TABLE I

SHOWING SOCIETIES FOUNDED BEFORE 1904 AND REGISTERED UNDER THE ACT OF 1904

(The figures relate to the societies as on March 31, 1906)

Name and Jurisdiction	District and Estate	Date of Foundation	Date of Registration	No. of Members	Interest Rate	No. of Loans granted during the Year	No. of Outstanding Loans	
							Current	Overdue
1. Fatepur Laine (6 villages)	Birbhum (private estate)	18/5/03	8/1/06	85	12½	42 (Rs. 5 to Rs. 25)	36	Nil
2. Kushmore (3 villages)	Birbhum (Government estate)	12/7/02	30/1/06	85	12½	46 (Rs. 3 to Rs. 25)	46	Nil
3. Labsa (1 village)	Khulna (Government estate)	13/5/03	29/7/05	87	12½	44 (Rs. 10 to Rs. 25)	6	1

In contrast with these societies there were a few which failed to receive the necessary recognition as their affairs were mismanaged. The following table will indicate the position of such societies :

TABLE II

SHOWING SOCIETIES FOUNDED BEFORE 1904 BUT NOT REGISTERED ON MARCH 31, 1906

Name and Jurisdiction	District and Estate	Date of Foundation	No. of Members	Interest Rate	No. of Loans granted during the Year	No. of Outstanding Loans	
						Current	Overdue
1. Basudebpur (1 village)	Hooghly (Government estate)	7/8/03	82	12½	1	1	23
2. Kalimpong	Darjeeling (Government estate)	15/2/02	30	..	Nil	Nil	4
3. Bhalucope .	..	..	35	..	Rs. 253 lent out at the end of the year remained as outstanding loan	..	..
4. Icha .	..	..	15	..	Nil	Nil	Nil
5. Sindipong .	..	..	27	..	Nil	Nil	Nil

The progress of rural societies during 1905–11 will appear from the table given opposite :

TABLE III

PROGRESS OF RURAL SOCIETIES IN BENGAL* DURING 1905–11

Year †	No. of Societies	Membership	Capital, Rs.
1905–6	30‡	..	..
1906–7	67	..	..
1907–8	204	5,042	1,80,904
1908–9	274	9,139	3,52,483
1909–10	415	15,437	5,75,186
1910–11	656	22,126	8,65,249

* The figures relate to the province of Bengal as it is now constituted.

† Till 1906–7 the co-operative year ended on March 31 for the whole of Bengal, including the eastern and western parts of the province. From 1907–8 till the year of the annulment of the partition of Bengal, the co-operative year for the western districts ended on March 31, but that for the province of Eastern Bengal and Assam ended on June 30.

‡ Of these, five did not work.

It may be recalled that in 1905 the territorial redistribution commonly known as the Partition of Bengal was carried out, resulting in the transference of the districts of Northern and Eastern Bengal to the newly constituted province of Eastern Bengal and Assam. The figures given in the official reports for 1905 are not therefore comparable with those of subsequent years. To facilitate this comparison the table given above has been compiled on the basis of data relating to those districts which are now included in the province of Bengal. It will appear from this table that the co-operative movement hardly made any appreciable progress during the five years that followed the passing of the Act of 1904. The reasons for this slow growth of credit societies are easily found.

The task of organising village societies was indeed an uphill one. Practically throughout the whole of the province the district officials had to contend against the opposition of the local moneylenders. One village *mahajan*, it is reported, interested himself in the co-operative movement in the hope of making a profit out of it. But he found that the newly started rural credit

society took away about Rs. 300 of his business. He therefore repaid the capital borrowed by the society and had it closed. The villagers were, of course, willing to join the credit bank but they dared not alienate the *mahajan*, who was the leading man in the village. In another instance a District Collector had entrusted Rs. 300 to a *tahshildar* and had requested him to organise a society. It appeared, however, that the *tahshildar* had lent out the sum to persons whom he had known. The ryots had nothing to do with the society and in fact no society existed. In the northern and eastern districts of Bengal very little had been done before 1905 to promote the growth of the rural societies. These districts were said to contain only 8 societies out of a total of 30 rural societies for the whole of Bengal. Of these 8 societies one was never actually formed and 4 did not do any work. The political agitation consequent on the Partition of Bengal made the people suspicious of all efforts on the part of the Government of the day. The rural societies were often regarded as institutions set up by the Government with a view to bringing revenue to the exchequer. The task of Government was rendered still more difficult by a fraud which had been practised upon the people of Eastern Bengal by a number of so-called "provident", "friendly" and insurance societies.

The table opposite shows the growth of primary agricultural credit societies in Bengal from 1911–12.

Organisation and Management

During the initial stages of the movement the duty of organising new societies devolved mainly on the Registrar and his colleagues. When, however, Central Banks were established in sufficient number they took

up this function, and by 1912–13 the Registrar was in a position to state that the policy of organising societies by means of departmental agencies, except by way of demonstration in new areas, had been definitely

TABLE IV

CO-OPERATIVE CREDIT INSTITUTIONS OF BENGAL

(Agricultural Credit Societies excluding Grain Societies and Land Mortgage Banks)

Year	No. of Credit Societies	Working Capital, Rs.	No. of Members	Profit and Loss, Rs.
1911–12	869	14,71,670	30,658	+ 89,773
1912–13	1,034	22,76,673	42,455	+ 1,14,606
1913–14	1,541	44,11,493	71,168	+ 1,54,363
1914–15	1,850	52,74,969	85,415	+ 2,08,441
1915–16	2,058	56,93,521	93,875	+ 1,92,428
1916–17	2,845	67,01,649	110,541	+ 1,96,996
1917–18	3,352	77,60,341	120,387	+ 2,25,954
1918–19	3,890	84,66,280	128,169	+ 2,31,619
1919–20	4,920	1,04,08,201	147,623	+ 2,63,534
1920–21	5,769	1,22,62,188	161,793	+ 3,34,034
1921–22	6,029	1,30,80,811	165,534	+ 3,63,376
1922–23	6,992	1,48,62,021	186,445	+ 4,36,324
1923–24	8,347	1,79,33,084	215,486	+ 4,90,228
1924–25	9,811	2,13,81,661	245,166	+ 6,12,844
1925–26	11,136	2,56,53,753	279,477	+ 6,43,098
1926–27	13,366	3,20,83,931	328,438	+ 9,72,480
1927–28	15,657	3,77,83,860	380,838	+ 12,37,960
1928–29	16,889	4,21,19,119	407,552	+ 15,04,072
1929–30	19,156	4,90,32,897	456,139	+ 17,26,160
1930–31	20,139	5,38,17,621	475,640	+ 19,71,395
1931–32	20,159	5,56,25,454	469,597	+ 18,42,907
1932–33	19,976	5,69,00,456	464,005	+ 16,93,728
1933–34	19,859	5,73,11,422	455,794	+ 15,86,638
1934–35	19,774	5,84,30,498	451,427	+ 12,48,615
1935–36	19,790	5,91,24,392	447,451	+ 9,69,785

abandoned. Directors and selected supervisors of Central Banks were encouraged to organise new credit societies by the grant of travelling allowance for journeys undertaken by them. Honorary organisers approved by the Co-operative Department and Central

Banks were also employed for the purpose and were similarly reimbursed for incidental expenses incurred by them. From time to time the Co-operative Department laid down general principles that should be followed in the organisation of new societies. No society was registered unless a preliminary local inquiry had been held by a responsible person regarding the character of the applicants. The principle of unlimited liability and its full implications were explained. A genuine declaration of the assets and liabilities of members was required. The first general meeting after registration was attended by the organiser or by some other responsible person to ensure that the departmental instructions had been complied with.

The Raiffeisen model was followed in the organisation of these societies with such modifications as the conditions of the province needed. The Registrar of Co-operative Societies, Bengal, wrote as follows in 1905:

> "So far as Bihar, Chota Nagpur and Orissa are concerned, societies on a Raiffeisen basis will succeed: where, as in the case of many of the Bengal districts, the village hardly exists and the cultivators, who live in isolated clusters of huts, have little knowledge of their neighbours, I am less sanguine. With few exceptions all the societies which are at present working are founded on the credit which the individual member has within the village. That such a credit, founded on a character for honesty, exists is well known to all who are familiar with village life. . . . It is the existing village credit which has to be organised, and when the villagers understand this, unlimited liability has no terror for them; they accept the principle without question."

Most of the societies had no share capital, as shares and dividends implied previous accumulation of capital

and were not suited to the needs of the agriculturists of the province.[1] A few societies issued shares valued at Rs. 50 or Rs. 100 payable in five or ten annual instalments.[2] But these shares were quite distinct from those of the Punjab rural societies or those of the United Provinces and Bombay, which paid a deferred annuity on the completion of the payment of the shares. The so-called shares of the Bengal rural credit societies, where they existed, were more or less in the nature of compulsory deposits. Members hardly subscribed more than one share each. It may be pointed out here that a departure had to be made from the Raiffeisen ideal in 1918. It was then decided that all new societies should be established on a share basis, each member subscribing the first instalment before the society began work. This initial sacrifice was intended to test the sincerity of members.[3]

In all societies of the purely Raiffeisen type the entire profits go to an indivisible Reserve Fund and are not distributed even on dissolution. In societies which permit profits to be distributed the temptation to profit-seeking may prove stronger than caution. There is the further danger that credit may be taken for profits not actually realised in cash and dividends may be distributed from capital rather than from realised profits. In Bengal, however, the Raiffeisen model has been discarded in favour of one under which a portion of the profit is distributed in dividends and the balance credited to reserve fund.

The rules [4] lay down the following provision for the distribution of dividends:

[1] *Report on the Working of Co-operative Societies*, Bengal, 1911–12.

[2] A few Pabna and Tippera societies for instance, in 1911–12, had issued shares.

[3] *Report on the Working of Co-operative Societies*, Bengal, 1918–19.

[4] Section 26 of Rules framed under section 43 of the Co-operative Societies Act II of 1912.

"In every registered society with shares and with unlimited liability not less than one-half of the net profit in any year shall be carried to a reserve fund until that fund is equal to one-half of the total liabilities of the society other than reserve fund and share capital. Thereafter, not less than one-third of the net profits in any year shall be added to the reserve fund, provided that if, by any increase in the liabilities other than reserve fund and share capital, the proportion of reserve fund to such liabilities is reduced below one-half, the share of the net profits to be credited annually to the reserve fund shall be raised to one-half until the proportion is restored."

The societies are run on democratic lines. The "supreme authority" of a society is vested in the General Meeting, which consists of all the members. It is the duty of the general meeting to elect a Chairman and a Committee of Management, or the *Panchayet.* At the Annual General Meeting the members are expected, among other things, to decide the maximum amount of total liability to be incurred during the year and to fix for individual members a maximum amount up to which they may be indebted to the society. It is also the duty of the members assembled at the annual general meeting to receive a report of the number and amount of loans made to the members of the committee of management.

These are no doubt substantial powers. But the members as a rule are apathetic and hardly take any interest in the affairs of the society. The result is that power is concentrated in the hands of the committee of management (Panchayets), who are responsible for the day-to-day administration of the affairs of the society. Under the rules the committee of manage-

ment are expected to see that the loans are applied to the purposes for which they are granted and to recall all loans which have been diverted to other uses. They are also expected to check the security for each outstanding loan, recover all arrears and to consider applications for extension of time. We shall see later on that the societies in which these powers are effectively exercised by the committee are very few in number. There is in most societies a further concentration of powers in the hands of the chairman and the elected secretary. To minimise the evils arising out of this state of affairs, an attempt was made in 1911 to set up a Committee of Supervisors in the Burdwan and Presidency Divisions. It was expected that this committee would keep the Panchayets in check and make them more alive to their responsibilities. But this device proved useless owing to dearth of suitable men who could take up the work of supervision. The democratic principle usually observed in the election of office-bearers is, however, modified in certain cases. To guard against the danger of the same body of men holding office for a number of years and using their power and influence to the detriment of the society, it is laid down that the Registrar's sanction should be obtained in certain cases. When, for instance, the office-bearers of primary societies have been in office for three years or more in succession, or when they are re-elected within a shorter interval than two years after having held office for two or more years, it is necessary to obtain the sanction of the Registrar to their reappointment, and it is the duty of supervisors and auditors to make an inquiry regarding all such cases. In making this inquiry the supervisors are expected to note whether such office-bearers have abused their position by taking an unduly large share of available

loans or whether they have participated in *benami* loans.[1]

Working Capital

During the early years of the movement the societies were financed either by loans (with or without interest) from Government, from private persons and deposits made by members. In 1905–6 the Bengal co-operative societies[2] received Rs. 3,210 from Government free of interest. Rs. 5,457 were lent by Government at 6¼ per cent to societies in Government estates and Rs. 15,829 were advanced by private persons. Of this latter amount Rs. 10,355 went towards financing the registered societies and the balance of Rs. 5,474 to the unregistered societies. Details are given below:

	Rs.
Mr. Hamilton's Fund	2,605
Mr. G. D. Pyne	2,000
Kailasheswari Fund	1,500
Domepara Wards Estate	1,500
Bettiah Raj	650
Mission Fund	600
Sankara Wards Estate	1,500
	10,355

Hatwa Raj	1,700
Darbhanga Raj	1,020
Babu K. P. N. Singh	913
Babu Gulab Chand	786
Magistrate's Charitable Fund	450
Madhubani Babu's Fund	305
Bettiah Raj	300
	5,474

With the inauguration of Central Banks the centre of financial gravity shifted to these bodies and the

[1] Circular 5 of 1931.

[2] Resolution No. 2466 LR dated August 11, 1906, on the Registrar's report for the year 1905–6.

TABLE V

SOURCES OF WORKING CAPITAL OF AGRICULTURAL CREDIT SOCIETIES

Year	Share Capital paid up, Rs.	Deposits from—				Loans from Government, Rs.	Reserve Funds, Rs.	Other Funds, Rs.	Total, Rs.
		Members, Rs.	Non-members, Rs.	Societies, Rs.	Provincial and Central Banks, Rs.				
1911–12	24,319	2,61,587	1,65,154	7,04,428		1,82,642	1,32,924	..	14,71,054
1912–13	40,742	3,53,892	2,12,376	13,31,672		1,61,745	2,21,634	..	23,22,061
1913–14	57,564	4,91,351	3,60,029	30,55,399		1,14,274	3,32,876	..	44,11,493
1914–15	50,487	4,90,883	3,95,780	..	37,82,704	1,00,317	4,54,798	..	52,74,969
1915–16	60,227	5,06,801	3,74,879	9,239	40,22,581	91,777	6,28,017	..	56,93,521
1916–17	51,951	5,32,295	3,38,253	92,696	48,38,208	56,080	7,92,166	..	67,01,649
1917–18	51,084	4,87,018	4,18,013	93,991	56,97,971	35,324	9,76,940	..	77,60,341
1918–19	65,252	5,17,587	4,39,720	97,579	61,56,779	24,803	11,64,560	..	84,66,280
1919–20	1,52,949	5,76,475	4,73,099	58,815	77,54,993	20,884	13,70,986	..	1,04,08,201
1920–21	3,02,134	6,26,868	5,56,638	92,724	90,97,773	12,794	15,73,257	..	1,22,62,188
1921–22	4,68,801	6,39,066	6,07,951	94,821	94,30,335	7,432	18,32,405	..	1,30,80,811
1922–23	7,03,769	6,98,103	6,94,701	1,04,786	1,04,93,774	3,086	21,63,802	..	1,48,62,021
1923–24	10,27,982	7,83,463	8,07,194	1,17,609	14,79,134	3,428	25,70,441	..	1,79,33,084
1924–25	14,71,633	9,33,455	8,50,873	77,553	1,49,74,424	1,804	30,71,919	..	2,13,81,661
1925–26	19,99,916	11,21,080	10,23,874	97,214	1,78,76,083	2,046	35,33,540	..	2,56,53,753
1926–27	26,02,028	12,76,467	12,28,111	62,296	2,25,64,135	1,673	43,49,221	..	3,20,83,931
1927–28	32,82,412	14,90,929	13,60,103	63,587	2,62,36,900	1,243	53,48,686	..	3,77,83,860
1928–29	40,20,537	16,67,017	15,25,139	59,647	2,82,93,697	1,743	65,51,339	..	4,21,19,119
1929–30	47,89,568	18,82,361	14,99,469	56,541	3,28,54,954	477	79,49,527	..	4,90,32,897
1930–31	52,51,491	21,95,042	14,64,794	85,883	3,51,44,337	278	96,75,796	..	5,38,17,621
1931–32	54,28,652	20,04,457	16,97,187	96,124	3,48,12,247	240	1,15,86,547	..	5,56,25,454
1932–33	55,27,924	19,83,317	17,08,994	91,008	3,42,24,872	240	1,33,64,101	..	5,69,00,456
1933–34	55,88,784	19,78,682	17,29,775	95,750	3,28,72,369	162	1,50,45,900	..	5,73,11,422
1934–35	55,44,548	18,61,580	15,33,933	83,551	3,28,52,743	101	1,65,26,322	27,720*	5,84,30,498
1935–36	54,46,845	19,78,076	14,99,286	1,05,766	3,23,37,314	..	1,77,21,471	35,634	5,91,24,392

* From 1934–35 "the other funds" have been shown separately from the "Reserve Fund".

primary agricultural societies became completely dependent on them for their supply of capital.

The sources of working capital of primary societies may be classified as follows: (1) share capital, (2) deposits from members and non-members, (3) loans from societies, Central Banks and from Government and (4) Reserve Fund.

The growth of working capital of agricultural credit societies in Bengal from 1911–12 is given in Table V (p. 17).

Share Capital

The introduction of share capital in rural credit societies has proceeded by the method of trial and error. In 1911–12 very few societies had shares. In 1918 shares were introduced for all new societies. Several old societies also adopted by-laws providing for shares. It was expected that this innovation would make the societies more and more self-sufficient in regard to capital resources. It was widely believed in official circles that societies working on the basis of a fifty-rupees share for each member payable in ten annual instalments would be financially independent long before the shares were actually paid up. This expectation, however, has not been realised. In 1934–1935 share capital supplied only about 9 per cent of the total working capital. Nevertheless the system of shares proved to be of great value to the societies. It served to enhance the credit of the societies and stimulated to some extent thrift amongst the members.

Deposits from Members

So far as deposits from members are concerned, they should constitute the principal source of capital

of rural credit societies which should be banks worked with capital supplied by the members themselves. But the position with regard to this item has deteriorated during the last quarter of a century. In 1911–12 members' deposits furnished about 17 per cent of the total working capital, while in 1934–35 they constituted only 3 per cent. In a note written in 1909 by the Registrar of Co-operative Societies, Eastern Bengal and Assam, it was argued that the want of confidence which the people of the province showed in these societies was likely to disappear when they had worked satisfactorily for a number of years. He remarked:

> "The men of Eastern Bengal and Assam are not absolutely dense or dull, but are generally possessed of a certain amount of astute intelligence, which makes them regard with doubt any movement to which they are unaccustomed. This want of confidence will rapidly disappear when they find the object of their suspicion working satisfactorily and beneficially for a few years." [1]

A circular issued by the Co-operative Department in 1913 drew the attention of the credit societies to the desirability of attracting as much local capital as possible. It remarked:

> "The ideal to be aimed at is that rural societies should raise locally what capital they ordinarily require, and that Central Banks should make good any deficiency in the supply of local capital. A time will no doubt come when local capital will be the principal source for the supply of ordinary requirements of rural societies." [2]

[1] Note by Mr. K. C. De on the financing of rural co-operative credit societies: Appendix to *Proceedings of the Conference of Registrars of Credit Societies*, 1906.

[2] Circular No. 6 of 1913.

Subsequent events have falsified this expectation and today the rural societies are more dependent than ever on external capital. This dependence clearly shows that, while members are prepared to join the societies on the basis of unlimited liability, they will not trust the societies with their own money. The consequence is that the primary societies are preponderatingly borrowers from Central Banks. This dependence on an external agency for the supply of working capital is not congenial to the growth of the co-operative spirit as it is bound to lead to constant interference in the internal affairs of societies. Attempts made by the Government to stimulate deposits from members have failed. In 1904 a resolution [1] announced that the Government of India were prepared to advance funds subject to the condition that the amount of such loans did not "exceed the total amount of money subscribed or deposited or of the share capital paid up by the members". In 1911–12 the loans from Government amounted to a little over Rs. 1,82,000. But gradually the financial stake of the Government in the co-operative movement was reduced, and in 1934–35 Government assistance amounted only to Rs. 101. In official quarters this tendency was hailed as a welcome change, since it enabled the societies to be free from Government control and to develop on true co-operative principles. But it is doubtful whether societies have become any more co-operative on account of this freedom. Mr. Darling, Financial Commissioner, Government of the Punjab, remarked in 1937 that thrift and co-operative credit should always go hand in hand, but in India they had been only the barest acquaintances. In 1935 the amount saved per member in the form of

[1] Government of India Resolution No. 1-63.3 (Land Revenue), dated Simla, April 29, 1904.

shares and deposits was in no province more than Rs. 34 and in two it was less than Rs. 10.[1]

Reserve Fund

The Reserve Fund forms an important source of the working capital of agricultural credit societies. In 1911–12 this fund furnished 9 per cent of the total working capital, while in 1934–35 it contributed about 28 per cent. Figures (Table IV) given on page 11 will show that profits on the working of the credit societies have been steadily increasing since 1911–12. In 1934–35 the profits are shown to be as high as 12½ lakhs of rupees. The apparent inference is that there has taken place a *pari passu* increase in the reserve fund of the agricultural credit societies. That inference would, however, be erroneous to a great extent. For it cannot be overlooked that figures relating to profits are based on estimates of assets and liabilities rather than on gains actually realised. As we shall see presently, overdues of outstanding claims have been particularly high in recent years. But auditors have generally taken an unduly optimistic view about the nature of such assets and have authorised the declaration of dividends based on such estimates.[2] It is therefore difficult to say in the circumstances how far the accretion to the reserve fund may be taken at its face value.

The Maclagan Committee remarked that primary societies should strive to make themselves financially independent, and this could only be done by enabling

[1] *Indian Co-operative Review*, January-March 1937, p. 115 : Mr. Darling's Presidential Address before the U.P. Co-operative Conference, Lucknow, January 1937.

[2] Such doubtful practice is looked upon with disfavour by the Co-operative Department. Nevertheless it existed on a large scale before 1931.

them to build up their own capital sufficient for their needs. The Committee remarked:

> "The object of a society should be to accumulate a reserve fund" (in the form of surplus assets) "until it obtains a capital of its own sufficient to meet all its needs and thus becomes independent of outside assistance."

In pursuance of this ideal most societies have been using the reserve fund as part of their working capital in granting loans. It is only in recent years, mainly as a result of the depression, that the societies became alive to the need of keeping these funds fluid and were anxious to separate them from loan investments. This attempt to separate the reserve fund proved futile as all their assets had become frozen.

But it is not possible to draw any general inference from these facts regarding the appropriate method of the use of reserve fund by primary societies. Instances are available from other parts of India of credit societies making a judicious use of their reserve fund in the manner suggested by the Maclagan Committee.[1] A large number of societies in the Punjab became independent of outside financial aid by using the reserve fund as working capital. In other parts of India, *e.g.* in the Central Provinces and the Madras Presidency, the reserve fund was withdrawn from primary societies and invested in Central Banks. But this procedure was hardly able to save the societies from disaster or decay.

The conclusion obviously is that the manner in which the reserve fund is employed is only one among a number of other factors influencing the stability of primary societies. Where the fundamental conditions

[1] *Report of the Committee on Co-operation in Burma*, 1928–29, p. 32.

necessary for the working of a credit society are lacking, no particular method of investing the reserve fund, however sound, can postpone for long the inevitable day of reckoning. The comparative position with regard to different sources of working capital in the years 1911–12, 1925–26 and 1934–35 may be summarised in Table VI given below:

TABLE VI

Sources of Working Capital	Percentage of Total Working Capital		
	1911–12 *	1925–26	1934–35
1. Share capital . .	1·6	8	9
2. Members' deposits .	17·7	4	3
3. Deposits from non-members and loans from urban societies, Central Banks and the provincial bank .	58·9	70	58
4. Reserve fund . .	9	14	28

* The figures for 1911–12 are those given in the *Annual Report on the Working of Co-operative Societies*, 1911–12. The figures for other years are approximate and have been computed from Table V (p. 17).

Thus it appears that preponderance of borrowed capital as distinguished from owned capital has always been a characteristic feature of agricultural credit societies. With regard to one particular source of borrowed capital, viz. members' deposits, there has been a progressive deterioration. There has no doubt taken place what looks like a satisfactory increase in the percentage of share capital and reserve fund. But in view of the alarmingly heavy percentage of overdues in relation to both principal and interest in the post-depression years, it is difficult to say how far the addition to the reserve fund is the result of a realised surplus of assets over liabilities, after making due provision for bad and doubtful debts. In the absence of a liberal provision for writing off bad and doubtful debts,

the figures relating to the growth of reserve fund must be accepted with a good deal of caution. Much of the laxity in the working of village societies in Bengal is due to this dependence on outside agencies for their capital. The men who supply the capital and the men who use it are distinct groups. Usually deposits came from persons who are richer than those who borrow these funds, and it is this fact that cuts at the root of unlimited liability, on which village societies are based. Dr. Fay remarked that unlimited liability of a group of thriftless persons was something which was worth nothing. Indeed it was worth less than nothing. The membership of village banks should be open only to those who are thrifty enough and honest enough to be creditworthy.

The table given below will show the loans granted by agricultural credit societies to individuals and societies during 1922–36:

TABLE VII

SHOWING LOANS GRANTED DURING 1922–36 BY AGRICULTURAL CREDIT SOCIETIES

Year	Loans made during the Year to—	
	Individuals, Rs.	Banks and Societies, Rs.
1922–23	52,74,403	25,889
1923–24	70,30,837	91,526
1924–25	90,65,887	1,33,337
1925–26	1,19,50,842	2,59,838
1926–27	1,37,90,802	3,02,888
1927–28	1,67,69,275	15,37,046
1928–29	1,69,59,311	14,29,697
1929–30	1,60,08,263	4,04,255
1930–31	92,69,176	2,59,042
1931–32	50,18,977	1,28,577
1932–33	35,83,527	1,22,276
1933–34	32,74,489	1,15,332
1934–35	24,72,903	1,91,903
1935–36	23,30,188	2,54,931

Before the depression of 1929 the most usual rate of interest charged by primary credit societies was 12½ per cent.

The maximum figure for loans granted to individuals was reached in the pre-depression year 1928–29, when it stood at Rs. 1 crore 69 lakhs. In 1935–36 such loans dwindled to a little over 23 lakhs. Loans granted to members are of two kinds: short- and long-term loans. Short-term loans are usually advanced for a period not exceeding one year for annual agricultural expenses and other short-term purposes. Loans for longer periods are for such objects as purchase of lands, liquidation of old debts, meeting expenses of social ceremonies and improvement of lands. The usual practice is to advance loans on personal security with two or more sureties. In exceptional cases it is thought desirable to take a mortgage of lands as collateral security. Where such mortgages are taken it is the duty of credit societies to see that the borrowers do not get into arrears with their rent and have their holdings put up for sale in collusion with the landlords.

It is true that in a co-operative credit society the main security is the borrower's capacity and willingness to repay and his reputation for honesty. But at the same time it is not possible to dispense with sureties. The main advantage of the system of requiring a surety is that it operates as a check on extravagance and that "it adds the general supervision of individual members to the special supervision of the society over the proper application of the money borrowed". It is well known that usually members stand as surety for one another. The value of mutual guarantee is thus considerably diminished. But in such circumstances it should be the duty of the managing committee to inquire into the solvency of the guarantors. It should be laid down as

a general principle that a person who has made himself responsible either as a principal or as a guarantor for more than what he is worth will not be accepted as surety.

In addition to personal security a co-operative credit society relies on certain other guarantees to which a society is entitled under the provisions of the Co-operative Societies Act. Subject to any prior claim of the Government in respect of land revenue or of a landlord in respect of rent, a credit society is entitled to a prior claim to enforce any outstanding demand. Thus a society is entitled to a prior claim against the property of members when this property, *e.g.* seeds and manures, has been supplied by the society or when crops have been grown out of loans granted by a society.

This prior claim, however, operates only when a decree has been granted in favour of a society by a court. But there are certain legal difficulties which make this right of the society nugatory. It has therefore been suggested that this prior claim should be converted into a first charge which should operate even in the absence of a decree. This suggestion has already been adopted in Bombay and was recommended for adoption in Mysore in 1936 by the Committee on Co-operation.[1] The report issued by the Agricultural Credit Department of the Reserve Bank also suggested that, on the analogy of the English Agricultural Credits Act, 1928, agricultural charges should be created in favour of credit societies of this country. Under the English Act, when a charge is created in respect of any property it is obligatory on the borrower to repay his loan out of the property charged. Disposal of any property in contravention of this rule is punishable with penal servitude up to three years. It has been suggested

[1] *Report of the Committee on Co-operation*, Mysore, p. 97.

that the provincial governments in India should consider the desirability of amending the Indian Act along these lines. But the circumstances of India are so radically different that it would be highly inexpedient to make the non-payment of debt a criminal offence. Nor is the question of giving the co-operative societies a first charge against the claims of other creditors free from legal difficulties. For as against a *bona fide* purchaser for value without notice no remedy exists for the society to enforce its charge. The provisions of the Agricultural Credits Act have also been found to be unworkable in practice in Great Britain. Once the British farmer had given an agricultural charge other sources of credit dried up and pressure was exercised on him for the repayment of antecedent debt. The Welsh Committee of the National Farmers' Union therefore asked for the repeal of the relevant portion of the Agricultural Credits Act, 1928.

The table given below will show the amount of

TABLE VIII

COLLECTION AND OVERDUE LOANS FROM MEMBERS OF AGRICULTURAL CREDIT SOCIETIES

Year.	Amount due at the Beginning of the Year, Rs. Thous.	Overdue, Rs. Thous.	Amount repaid during the Year, Rs. Thous.	Collection, %	Overdue, %
1922–23	1,06,52	40,04	36,12	33·9	37·5
1923–24	1,21,31	44,73	38,51	31·4	36·3
1924–25	1,48,35	51,78	62,71	41·8	34·4
1925–26	1,73,44	49,26	79,95	45·5	28·3
1926–27	2,11,17	50,10	79,93	37·8	23·7
1927–28	2,64,51	67,45	93,49	35·5	25·4
1928–29	3,12,65	92,12	1,14,77	36·7	29·4
1929–30	3,43,17	1,18,29	1,00,50	29·2	34·4
1930–31	4,01,80	1,60,04	56,79	14·1	39·8
1931–32	4,32,44	2,43,88	46,87	10·8	56·3
1932–33	4,33,08	2,95,80	36,55	8·4	68·3
1933–34	4,28,42	3,46,59	36,36	8·5	80·9
1934–35	4,25,01	3,40,00	29,79	7·0	79·9

loans due from individuals, the amount repaid and the percentage of collection from 1922–23 to 1934–35.

In the next table (Table IX) is shown the distribution of overdues in the Presidency, Burdwan, Dacca, Chittagong and Rajshahi Divisions.

It will appear from Table VIII that the proportion of collections remained more or less steady during 1922–1923 to 1928–29. But the situation began to change for the worse in 1930–31, when the overdues stood at nearly 40 per cent. In 1934–35 overdues reached the alarmingly large proportion of nearly 80 per cent. Table IX, showing the collections and overdues in the five administrative divisions of the province, brings out that in 1934–35 the Dacca Division was the best and Burdwan the worst from the point of view of collections. It is no doubt true that the deterioration in the position of credit societies has been the outcome largely of the slump of 1929. But it is difficult to overlook the fact that, long before the first symptoms of depression manifested themselves, the proportion of overdues was fairly high. A figure such as 33 per cent overdue and 40 per cent collection in a normal season cannot by any means be regarded as an index of a healthy state of the co-operative credit movement in a province. It is not therefore possible to maintain that the only factor responsible for the arrears in collection has been the absence of repaying capacity on the part of the ryot due to the fall of prices. The fact is that for a number of years the co-operative structure had been undermined by a violation of those essential principles on which rural credit depends. The manner in which loans have been granted, the uses to which such loans have been put and the lack of any effective supervision that has characterised the relations between primary societies and the financing banks, are some of the con-

TABLE IX

Overdues of Agricultural Credit Societies *

(Divisional distribution)

N.B.—The amounts are given in Lakhs of Rupees

Division	1925–26			1926–27			1927–28			1928–29			1929–30			1934–35		
	Amount Outstanding	Overdues	Percentage of Overdues	Amount Outstanding	Overdues	Percentage of Overdues	Amount Outstanding	Overdues	Percentage of Overdues	Amount Outstanding	Overdues	Percentage of Overdues	Amount Outstanding	Overdues	Percentage of Overdues	Amount Outstanding	Overdues	Percentage of Overdues
Presidency	31·41	6·73	21·1	42·49	12·7	29·9	51·25	18·56	36·1	56·85	24·83	43·6	61·03	32·21	52·7	65·8	54·5	84
Burdwan	21·38	6·12	28·6	28·27	8·93	31·5	39·57	15·21	38·4	43·37	17·07	39·3	51·43	25·83	50·2	48·1	41·6	87
Dacca	69·97	15·45	22·08	84·51	20·17	23·8	99·82	26·53	26·5	140·4	33·15	29	135·4	47·2	35	144·3	87·1	60
Chittagong	37·78	4·21	11·1	48·81	6·07	12·4	53·54	10·95	20·4	59·2	14·4	24	73·6	20·2	35	72·6	55·1	75
Rajshahi	50·63	18·59	36·7	60·40	19·56	32·3	68·47	20·87	30·4	69·7	28·8	42	80·4	34·1	42	84·3	72·1	86

* There is a slight discrepancy between the figures given in this table and those in Table VIII. Table IX is based on revised estimates.

tributory causes that have brought the credit societies to their present decadent state. Some of the office-bearers have been notorious for their delinquencies. They appropriated a large share of loans either directly or by indirect devices of a shady character such as *benami* transactions. These practices have been well known to the financing banks and to departmental officers. But efforts made with a view to remedying this state of affairs have proved futile. The annual reports on the working of co-operative societies in Bengal, particularly those issued during the formative stage of the movement, harped on this theme *ad nauseam* and there is no reason to believe that the situation had changed for the better even at a later period. A few instances will illustrate the nature of this evil. In 1918–19 in the Madaripur Subdivision of the Faridpur District an analysis of the loans due from 109 societies showed that a sum of Rs. 2,36,000 was due from 5141 members. Out of this sum as much as Rs. 70,000 was due from 158 defaulting office-bearers. In addition, the office-bearers owed another sum of Rs. 30,000 as interest. Many of these loans were *benami* transactions which came to light in the course of audit. In this Subdivision touts and others vied with one another in securing positions of responsibility in credit banks. As chairmen, secretaries and members of the committee of management they appropriated loans, showing them in the books of the societies as loans to fictitious people and even to dead men. In the same year in the Rajshahi Division the total loan due from about 1000 societies was Rs. 20·7 lakhs. Out of this a sum of Rs. 10·6 lakhs was appropriated by 4221 members who were chiefly office-bearers, and the remaining Rs. 10·1 lakhs was disbursed to 17,221 ordinary members. These two illustrations are typical of the condition then prevailing

all over the province, and the general conclusion which the Department drew from this state of affairs was that the office-bearers abused their positions everywhere, including districts with newly-started societies. The conduct of office-bearers has a demoralising effect on other members, who not unnaturally take up the attitude that they will not repay as long as the office-bearers are in default. In such circumstances, when interest due from members is in arrears, the financing bank is often paid charges due to it out of the working capital of primary credit societies. This state of affairs is a sad commentary on the nature and extent of interest taken by the general body of members. Often they do not care to know what is going on and fail to understand the implications of unlimited liability. It is on record that in several cases members did not know that they had undertaken unlimited liability and were surprised when liquidators assessed them.

With a view to providing safeguards against the domination of a clique and the growth of vested interests, the rules no doubt provide that the same set of office-bearers should not continue for long without the express permission of the Registrar. The members of a village society assembled at a general meeting are also expected to hear all complaints against the committee of management and receive a report of the number and amount of loans made to office-bearers. But in view of the general apathy of the members the existing safeguards have proved futile in checking or minimising the abuses.

It is interesting to note that in other parts of India and Burma this evil of domination by a coterie is present in a more or less acute form. In Burma the Committee on Co-operation pointed out that the chairman and other members of the committee were inclined to take

too large a share in the loanable capital. In the Punjab the same tendency was noticeable, and the authorities there tried to remedy this by an amendment of the rules allowing any member to refer to arbitration the question whether the chairman or members of the committee had appropriated large shares of the loan. This remedy may be tried in Bengal, but so long as the fundamental conditions under which primary societies carry on their work are not changed, it is idle to expect any improvement in the present state of affairs. The real remedy rests in the hands of the members themselves. With alert, intelligent and educated members dishonesty on the part of office-bearers will be a thing of the past.

In analysing the causes that have contributed to the heavy percentage of overdues, account must also be taken of another baneful tendency which was noticed not many years ago. Under the rules as they stood before they were amended in 1931 there was no machinery in existence by which action could be taken by an outside independent body against defaulting members of a managing committee. It is the duty of this committee to initiate a dispute under the Co-operative Societies Act for the recovery of arrears. But when members themselves are in default, it is not likely that the committee will take action against one of their own colleagues. Even when an award is given in a dispute there is naturally a good deal of reluctance to take recourse to the civil court for executing the award against office-bearers. In 1929–30 the Bengal Banking Inquiry Committee recommended that in such cases the financing Central Bank should be empowered to institute a dispute. The Committee pointed out that no change in the statute was necessary to carry out this recommendation. It would be sufficient if a power of attorney

was executed by a primary society in favour of a Central Bank, entitling the latter to institute and conduct disputes on behalf of primary societies. This suggestion has been accepted and it is now the usual practice to delegate appropriate powers to Central Banks.

The purpose for which loans are granted and the manner in which such loans have been actually utilised shed much light on the present situation. The Co-operative Societies Act itself is silent as regards the objects for which co-operative societies are competent to give credit to members. It is open to the provincial governments to make rules defining these objects. One such rule lays down that "a member applying for a loan shall state in writing the purpose for which he requires the loan".[1] When the Co-operative Credit Societies Bill was being drafted the Government of India refused to incorporate in the Bill a proposal that no loans should be granted except for productive purposes. They held that it would be difficult to enforce such a clause. Apart from this, in the special circumstances of India it was inexpedient to confine loans to productive uses only. It was argued that if the Indian ryot must borrow for other than productive purposes it was far better that he should obtain the necessary credit from the co-operative credit societies rather than from moneylenders. In pursuance of this principle loans have hitherto been granted on the basis that the purpose for which money is borrowed must be such that there is a sufficient prospect of the loan repaying itself by the production, business or economy which it will enable the borrower to effect.[2] The departmental circulars divided these loans into two classes: short- and long-term loans. Short-term loans are those needed for meeting

[1] Article 25 (3) of the rules under section 43 of Act II of 1912.

[2] Calvert, *Law and Principles of Co-operation*, p. 235.

needs connected with the raising and financing of crops, while all needs other than seasonal are lumped together under long-term loans. But this distinction was ignored in actual practice. The Co-operative Department had no doubt emphasised the need for caution in granting long-term loans. The following extract from the circular will illustrate the views of the Department:

> "While it should be the aim of every society to clear its members of outside debts and while this object should be prominently kept in view, every society should try to effect this object by a gradual process. No society should be given a loan by the Central Bank to pay off the outside debts of its members till it has proved its ability to administer its funds properly, and no member of a society should be given a loan to pay off his dues to the *mahajan* till the society is sure that the member has learned thrift and will not plunge into unnecessary expenditure again."

But all caution inculcated by the Department was scattered to the winds. The committees of management do not, as a rule, seem to have realised the importance of a thorough scrutiny of the purposes for which loans were granted, nor did the Department find it practicable to enforce the circular thus issued. The distinction between crop loan, repayment of which is automatically provided for, and other loans which can only be repaid after long periods was thus virtually ignored and liquidation of old debts absorbed about 40 to 50 per cent of the available funds. There is, of course, nothing objectionable from the co-operative standpoint in these loans. In so far as loans are utilised for paying off old debts borrowed at extortionate rates from money-lenders, the farmer's resources are *pro tanto* increased

due to the economy effected in interest charges. Such a loan may therefore be held to be productive, though in an indirect sense. But the credit societies are hardly the proper agencies for granting loans for such long-term purposes as repayment of old debts. The instalments fixed for the liquidation of such loans have generally been of such a character as to impose a heavy burden on the resources of borrowers even in normal seasons. This has resulted in wholesale default on the part of a large section of the members.

Informed co-operative opinion is practically unanimous that the present condition of the movement in India necessitates a reconsideration of the policy that has so long been followed and that co-operative credit societies should confine themselves in future to crop loans or seasonal loans only. It is necessary to remember that the co-operative movement in India is not a spontaneous one emanating from the people. It is an organisation set up by the Government rather than an endeavour deriving its strength from popular support. Nor are the working funds of primary societies raised by means of deposits from local people who would be expected to exercise a wholesome influence on the use of such deposits. The Minute of Dissent signed by Messrs. Stockes and Reynolds appended to the *Report of the Calvert Committee on Co-operation* in Burma urges that if loans are limited to meeting seasonal needs several advantages are likely to follow. In the first place such needs can be easily estimated, as they remain stable from year to year. With proper safeguards this practice will prevent short-term loans from degenerating into long-term loans and will stop fictitious repayments, which are often resorted to. It will further enable co-operative banks to offer to commercial banks a security which the latter will accept.

When these crop loans are not repaid after the harvest, immediate action for recovery must be taken by the Central Bank. The Central Banks of the province have now agreed to confine their loans in future to cultivation purposes only. One can only express the hope that it will be possible to enforce this decision strictly and that all possible steps will be taken to recover the loan.

There is one other matter to which it is necessary to make a passing reference. The purpose for which a loan was granted by village credit societies was indicated in the annual reports issued during the first decade of the co-operative movement in the province. But information on this subject was withheld from the later issues. The publication of these facts helped the co-operative movement in more ways than one. It inspired public confidence and enabled the financing banks to gauge the volume and extent of demand for loans for various purposes. Further, in compiling these data the managing committees realised that it was necessary on their part to keep a vigilant watch on the funds borrowed from Central Banks. When the Co-operative Department ceased to take an interest in regard to the utilisation of loans, vigilance on the part of rural societies was relaxed. Nor was it possible on the part of the Registrar in the absence of these figures to enforce the directions contained in his departmental circular that outside debts owed to the *mahajan* should only be paid off gradually when members had learned to practise thrift.

That the picture drawn in these pages of the condition of the agricultural credit societies is not fanciful or exaggerated will appear from a qualitative estimate of these societies. At the time of the statutory audit each society is classified under one of five different classes. The object of this classification is to enable

the Co-operative Department to measure the progress in each area and to facilitate supervision. The best societies are called A class societies. These are societies in which members understand co-operative principles, carry them out, hold regular meetings of the committee

TABLE X

AGRICULTURAL SOCIETIES: AUDIT CLASSIFICATION

1. Class A: "Societies as near perfection as we can hope to go."
2. Class B: "Approach Class A but fall short of them in some essential quality."
3. Class C: "Average societies by no means free from faults, but with the capacity to eliminate their faults."
4. Class D: "Those in which immediate reconstitution is necessary. These societies have practically to begin all over again."
5. Class E: "Hopeless and dangerous, and generally immediate liquidation is their fate."
6. Societies under probation (U.P.).

Year	Total Number of Societies	A	B	C	D	E	U.P.
1917–18	3,060	16	279	1,745	210	195	615
1918–19	3,440	27	295	2,227	274	205	412
1919–20	4,529	36	377	2,468	290	261	1097
1920–21	5,277	49	392	3,066	391	318	1061
1921–22	5,694	49	380	3,768	486	333	678
1922–23	6,159	63	432	4,189	605	320	550
1923–24	6,726	68	456	4,232	634	371	965
1924–25	9,811	110	630	5,401	656	487	2527
1925–26	11,136	132	797	6,531	726	492	2458
1926–27	13,366	150	787	7,384	863	575	3607
1927–28	15,657	152	850	8,458	1108	687	4402
1928–29	16,889	166	855	10,177	1427	807	3457
1929–30	19,156	178	928	11,614	1884	901	3651
1930–31	20,129	136	721	12,491	2319	1054	3408
1931–32	20,159	95	475	13,816	2889	1440	1444
1932–33	19,976	62	389	14,406	2708	1521	890
1933–34	19,859	62	503	14,179	2757	1676	682
1934–35	19,769	46	397	13,910	2787	1859	770

of management, and in which there is a complete absence of that domination of a clique which has been the bane of the co-operative movement in this province ever since its inception. From the financial point of view also these societies represent all that is best in the co-operative movement. They obtain a fair share of

members' deposits and local deposits, and are characterised by punctual and regular payment of instalments. In the second class, known as B class, are included those which exhibit all the elements of a good society though not in a marked degree, and which show evident signs of progress. Average societies are put under C class. These are societies in which the general condition is promising, but in which members are in arrears and which require more supervision. The "bad" and "hopeless" societies are classified under D and E categories respectively, the latter being those in which immediate dissolution is considered necessary. Societies which are less than a year old form a class by themselves and are put in the "under probation" (U.P.) category. Table X (p. 37) sets forth the audit classification of the agricultural credit societies (excluding

TABLE XI

PERCENTAGE OF A, B AND C CLASS SOCIETIES, 1917–35

Year	Percentage of A and B Class Societies	Percentage of C Class Societies
1917–18	9·6	57·0
1918–19	9·3	64·7
1919–20	9·1	54·4
1920–21	8·3	58·1
1921–22	7·5	66·1
1922–23	8·0	68·0
1923–24	7·7	62·9
1924–25	7·5	55·0
1925–26	8·3	58·6
1926–27	7·0	55·2
1927–28	6·3	54·0
1928–29	6·0	60·2
1929–30	5·7	60·6
1930–31	4·2	62·0
1931–32	2·8	68·5
1932–33	2·2	72·1
1933–34	2·3	71·3
1934–35	2·2	70·3

grain banks and land mortgage banks) and the total number of such societies from 1917.

Table XI is compiled from Table X, and gives for the period 1917–35 the percentages which A and B class societies bear to the total number of societies. Similar percentages are given for C class institutions. In calculating these percentages "Societies under Probation" have been included in the total number of societies.

In the table given below similar percentages have been calculated for A and B class, as also D and E class societies for the period 1925–35, with this difference, that the societies under probation have been excluded altogether from the total number of societies.

TABLE XII

PROPORTION OF FAIRLY GOOD (A AND B) AND OF INEFFICIENT (D AND E) SOCIETIES, TO TOTAL NUMBER, 1925–35

Year	Percentage of A and B Classes	Percentage of D and E Classes
1925–26	10·7	14·0
1926–27	9·4	14·4
1927–28	8·8	15·9
1928–29	7·5	16·6
1929–30	7·1	17·9
1930–31	5·1	20·1
1931–32	3·0	23·0
1932–33	2·3	21·1
1933–34	2·85	22·4
1934–35	2·3	23·5

The table overleaf (Table XIII) shows the qualitative distribution of societies district by district in selected years, *e.g.* 1922–23, 1925–26, 1928–29, 1931–32 and 1934–35.

The trend of growth as revealed in these tables is that there has been a steady deterioration in the quality of the societies throughout the whole of the

TABLE XIII

Comparative Figures showing A and B Class Societies in the Different Districts of Bengal, 1922–35

(Agricultural Credit Societies)

District	1922–23		1925–26		1928–29		1931–32		1934–35		
	Total No.	Classes A and B	Total No.	Classes A and B	Total No.	Classes A and B	Total No.	Classes A and B	Total No.	Classes A and B	Class C
Burdwan	141	6	254	11	865	16	1055	9*	1047	8*	653
Birbhum	329	18	444	21	931	19	962	12	946	14	705
Bankura	36	3*	18	1*	35	5*	185	2*	202	5	149
Midnapur	450	25	816	57	1145	51	1284	39	1206	33	734
Hooghly	40	3*	75	5*	190	15*	159	8	259	7*	158
Howrah	60	4*	44	2*	50	1*	68	2*	67	1*	14
Chittagong	65	18	142	18	218	27	263	35	257	29	127
Noakhali	266	21	543	50	762	48	845	33	827	14*	563
Tippera	574	74	989	162	1310	181	1813	46	1773	35*	1340
Dacca	445	58*	687	143	1220	201	1547	106	1508	89	1183
Mymensingh	639	43	1100	116	1572	137	1859	78	1847	59	1423
Bakerganj	394	20	635	22	908	37	1176	25	1147	19	901
Faridpur	424	23	539	14	867	27	1231	27*	1207	23*	696
24 Perganas	140	4*	358	12	669	13	688	9	676	9	494
Nadia	341	13*	703	17	929	18	971	10	943	5	645
Murshidabad	282	31	405	46	640	37	648	13*	621	6	405
Jessore	284	Nil	469	24*	655	14*	757	15*	742	9	563
Khulna	370	27	479	45	695	47	705	44	677	38	508
Rajshahi	372	24*	479	45*	638	28	764	19*	752	7*	518
Bogra	230	1*	354	21	513	32	680	9*	679	13	490
Malda	87	5	126	3*	303	3*	353	2*	353	Nil	258
Rangpur	296	29	394	18	477	17	571	7	562	7*	368
Pabna	510	20	696	47	791	26*	853	17*	844	2*	571
Dinajpur	114	13	240	16	326	8	397	1*	399	1*	295
Jalpaiguri	42	Nil	61	4*	86	8	118	2*	116	7*	77
Darjeeling	80	12*	86	9*	94	6*	107	Nil	112	3*	72

* No Class A society.

period under review. Thus A and B class societies formed 9·6 per cent of the total number of societies in 1917–18, 8·3 per cent in 1925–26, 5·7 per cent in 1929–1930 and 2·2 per cent in 1934–35. While the A and B class societies form a steadily diminishing proportion of the total number of societies, those under other classes have been gradually increasing. The figures for C class societies are 57 per cent in 1917–18, 58·6 in 1925–26, 60·6 per cent in 1929–30 and 70·3 per cent in 1934–35. During 1925–34 the proportion of societies belonging to D and E categories increased from 14 to more than 23 per cent. It is true that the slump in jute prices that commenced in 1926–27 hit the societies very hard, and the marked deterioration that commenced about this year must have been due to this factor. But it is necessary to point out that even during 1922–23 to 1925–26, when jute prices ruled high and there was a steady increase in the percentage of collections of outstanding loans, one does not notice any great qualitative improvement. In 1922–23 A and B class societies formed 8 per cent of the total, while in 1925–26 they formed 8·3 per cent. The tables given above show that at the present day more than 70 per cent of the societies belong to the category of those which are bad but can be made good, and only a little over 2 per cent represent good and fairly good societies. The rest belong to the category of absolutely worthless societies.

From the table showing the qualitative distribution of the societies district by district it will appear that in some districts there were no A class societies in 1934–35. In one district (Malda) there was not one single A or B class society at all. The best districts appear to have been Khulna and Dacca. The former had 38 A and B class societies out of a total of 677 societies, while the latter contained 89 such societies out of 1508 societies.

Table XIV gives figures relating to the operations of agricultural societies in four different provinces of British India:

TABLE XIV

COMPARATIVE POSITION OF AGRICULTURAL SOCIETIES IN THE DIFFERENT PROVINCES DURING 1934–35

Province	Population (millions)	Agricultural Societies	Individual Members	Loans due		Percentage of A and B Class Societies	Percentage of D and E Class Societies
				By Individuals, Rs.	Of which Overdue,* Rs.		
Bengal .	51·5	21,118	5,12,983	4,17,96,715	3,11,47,086	2·3	23·5
Punjab .	24·8	18,215	6,04,279	6,83,28,207	33,23,007	13†	13†
Bombay and Sind	23·0	4,730	3,00,699	3,34,99,576	1,61,78,799	64‡	4‡
Madras	48·6	11,625	5,84,201	4,24,76,397	2,29,01,620	16§	10§

* "Loans overdue" means loans due for payment which have not been paid and for which extension has not been granted by competent authority.
† In the Punjab, Bombay and Madras there are only four classes, A, B, C and D.
‡ The Bombay figures relate to agricultural credit societies of 1931–32.
§ The Madras figures relate to primary credit societies of 1933–34.

As credit societies constitute numerically the largest group of the co-operative movement in British India, we shall not be far wrong in drawing conclusions regarding the position of credit societies from figures relating to agricultural societies in general. In respect of overdues the position of the Punjab is the best, while that of Bengal is the worst. In Bengal, out of a loan of Rs. 4 crores, overdue loans amount to Rs. 3 crores, while in the Punjab only Rs. 33 lakhs remained overdue out of nearly Rs. 7 crores. Bombay societies occupy a leading position judged qualitatively, as A and B classes comprise 64 per cent of agricultural societies of all kinds. In Bengal, as we have already seen, A and B class societies are almost negligible. But it may be remarked that interprovincial comparisons present difficulties. Conditions differ so widely in different parts of the country in regard to economic and administrative factors governing the co-operative movement that such comparisons are likely to be

vitiated owing to the operations of causes peculiar to a province. Besides, the standard insisted upon in different provinces for inclusion in a given audit class may not be the same. All these causes might explain much of the apparent disparity in the provincial figures. Nevertheless, when due allowance has been made for these factors, Table XIV does bring out that the Bengal credit societies have little or no vitality left in them, and that heroic measures are needed to lift them from the rut into which they have fallen. Track back by

We have already referred to the new policy that has been accepted by the financing banks in regard to the grant of loans to village societies. The Central Banks have agreed to act on the principle that they should confine their transactions in future to the supply of cultivation finance, and that the attempt made to free the members from outside debts should be abandoned. The redemption of prior debts should be attempted by such agencies as Land Mortgage Banks, or by the application of the provisions of the Bengal Agricultural Debtors Act (Act VII of 1936). But before this new policy can be initiated with any prospect of success it is necessary to prepare the ground by weeding out the weak and hopelessly bad societies which come under D and E classes, which form about 25 per cent of the total number. These societies serve no useful purpose in the co-operative structure. They set a bad example to their neighbours and clog the machinery of credit. The time and energy of the supervising staff, which could be better utilised, are wasted in looking after societies which cannot in any conceivable circumstance make good. When these societies have been liquidated, attention may then be concentrated on the C class societies. But the path of liquidation is beset with financial and administrative difficulties. The

Central Banks are unable, in view of their financial difficulties, to advance the necessary funds, while the administrative rules regarding liquidation proceedings are such as to present a serious obstacle to speedy winding-up of societies. The following table regarding liquidation proceedings during 1912–35 will show that under existing conditions the machinery has proved unworkable :

TABLE XV

LIQUIDATION PROCEEDINGS, 1912–35

Year	No. of Societies Liquidated	No. of Liquidation Proceedings pending
1912–13	1	5
1913–14	2	7
1914–15	4	9
1915–16	43	50
1916–17	39	85
1917–18	29	106
1918–19	81	184
1919–20	38	185
1920–21	63	228
1921–22	147	368
1922–23	53	403
1923–24	44	431
1924–25	66	448
1925–26	112	386
1926–27	75	409
1927–28	102	465
1928–29	182	595
1929–30	141	638
1930–31	180	785
1931–32	178	938
1932–33	239	1125
1933–34	167	1289
1934–35	121	1369

In 1935 as many as 1369 liquidation proceedings remained undisposed. If societies are to be liquidated as a part of the policy of reconstruction, it is clear that a more expeditious and less costly method than the one that exists today will have to be evolved.

It has been suggested in some quarters that, in order to revitalise the co-operative movement in India, it is necessary to broaden the basis on which a rural credit society usually works. Such a society should be a multi-purpose society embracing within its ambit the whole of village life.

> "If it serves merely as an agency for the supply of cheap credit it will not succeed in ameliorating the condition of the farmers. . . . The other economic handicaps from which they suffer must also be tackled at the same time and even those social and religious practices which impose a constant burden on their slender resources cannot be left out of its scope."[1]

A credit society with its function thus widened is renamed "Village Bank". This village bank—

> "must not merely be a source of credit, but must help in the business of marketing of crops and purchases of necessities, take an active part in agricultural and industrial development, influence and improve social and religious customs. It should make special efforts to develop corporate life and to be helpful and useful in every direction. Every avenue of waste should be checked and all methods for increasing production should be developed."

It has been argued in this connection that this is the type of bank which Nicholson had in view when he wrote his monumental report in 1895 regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency.

It is, of course, open to anyone to propose that credit societies should take upon themselves more

[1] See Bulletin No. 2 issued by the Agricultural Credit Department of the Reserve Bank of India.

onerous duties than those which they have hitherto discharged. But to suggest that Nicholson advocated a similar policy is misleading. For there is no support in the pages of Nicholson's report for the view that credit societies should, besides combining the functions of better-living societies, production and marketing societies, also take up the work of village reconstruction societies and deal with such matters as rural sanitation and medical relief, rural water supply and rural communications. For this is what is implied when a village bank is called upon to undertake a comprehensive scheme of activity dealing with village life in its entirety. Far from suggesting the formation of a credit society in each village dealing with so many aspects of rural life, Nicholson advocated besides rural credit societies a number of other institutions such as granaries, joint-stock banks, agricultural associations, co-operative societies other than banks functioning side by side with village banks. This will be evident from the following extract:

> "Village banks, with cheap or gratuitous administration, co-operative in principle, financed by deposits and debentures secured upon capital, reserve and loans, granting long-term mortgage credit repayable by amortization, as well as current short-term loans on personal credit, with external supervision as an equivalent for certain privileges, are the chief desiderata of the Presidency. To these may be added village granaries for lending and receiving in kind, as well as many village joint-stock banks, savings banks, agricultural associations, and co-operative societies other than banks, while the larger classes of banks whether *taluk* or district may find useful spheres of operation." [1]

[1] Nicholson's report, p. 385.

Even if Nicholson had actually suggested a village bank dealing in a comprehensive manner with many distinct rural problems, it would be inexpedient to accept and act according to his plan. It is futile in this province to expect that the members of the committee of management of rural credit societies—dominated by cliques and torn by factions—will discharge such onerous duties when they have failed miserably to carry out their limited tasks. The ideal of a village bank as interpreted in a wide sense must therefore wait until the time is ripe for the experiment. Meanwhile in the interest of the rural credit societies themselves it would perhaps be desirable to link up credit and marketing business, preferably in the few A and B class societies of the province.[1] These are societies which have made good, and represent all that is best in the co-operative movement. This experiment is much more likely to succeed than any attempt to engraft wholesale a series of activities for which most of our credit societies have neither the necessary funds nor the mental and moral equipment.

(2) NON-AGRICULTURAL

While the co-operative credit movement is primarily concerned in India with the provision of credit and marketing facilities to the agriculturist, it is hardly possible to ignore the development which has taken place simultaneously amongst the dwellers of the town. The village societies today require careful nursing and unremitting vigilance even after the lapse of more than three decades of their working. The urban societies, on the other hand, have shown remarkable strength

[1] See the chapter on Production and Marketing Societies.

and vitality, and have been able to shift for themselves with little or no external aid even from their very inception. They have always maintained a high standard of management, have supplied a section of the urban population with cheap credit, and have encouraged thrift by opening profitable channels of investment. The importance of these societies may be realised from the fact that while in 1935 the agricultural credit societies numbering 19,769 had a working capital of Rs. 5 crores 84 lakhs, urban societies numbering only 532 had a working capital of Rs. 4 crores 43 lakhs in this province.

Probably one of the most important reasons for the strength of the urban banks is to be found in the fact that the members of such banks are recruited from fairly well-to-do classes, who are alive to the responsibilities attaching to the membership of such institutions. But it is well to recognise the fact that though these societies are classed as co-operative, there is not much to distinguish them from ordinary joint-stock commercial banks. In a joint-stock bank financial accommodation is granted to all who are in a position to furnish the necessary security. In a non-agricultural credit society it is necessary that the borrower should be a member holding shares. Again, in a joint-stock bank there is hardly any scrutiny of the use to which a loan is put. This is also a characteristic feature of a co-operative urban bank.

The urban banks, or non-agricultural credit societies as they are now called, fall into three broad classes. In the first class are included societies formed by Government employees of one station or the employees of one firm or office. Many of the strong urban societies, *e.g.* those of Calcutta, come under this category. People's banks or town banks come next in order of

importance. These are societies which have thrown open their membership to all persons residing in a town. During the initial stages of the ~~co-operative~~ movement ~~these banks financed many village societies~~. But this function was generally taken over by Central Banks in course of time. Contrasted with these two types of urban banks that are non-communal in their nature there are a few banks having their membership restricted to a particular community, *e.g.* Moslems, Anglo-Indians.

Most of the urban banks of the province are on the basis of limited liability. In 1935 out of 532 urban societies only 22 were unlimited liability societies.

Although the urban societies made their appearance immediately on the passing of the Co-operative Credit Societies Act of 1904, they were very few in number. The pioneers in this line were the " Premier Society " composed of the employees of Messrs. Mackinnon, Mackenzie & Co., Calcutta, the Khulna Amla Society and the Midnapur Amla Society. The growth of urban societies during 1905–11 is given in the following table :

TABLE XVI

URBAN SOCIETIES, BENGAL,* 1905–11

Year	No.	Membership	Capital, Rs
1905–06	2	..	..
1906–07	9	..	..
1907–08	18	1441	60,983
1908–09	26	2488	1,47,008
1909–10	40	4384	2,89,637
1910–11	47	6417	4,99,721

* The figures relate to the Presidency of Bengal as it is now constituted.

Their later development will be found from the table overleaf :

TABLE XVII

Non-Agricultural Credit Societies, Bengal

Year	No. of Credit Societies *	No. of Members	Working Capital, Rs.	Reserve Fund, Rs.	Profit and Loss, Rs.
1911–12	59 (3)	9,450	8,24,440	24,831	+67,283
1912–13	63 (3)	11,338	9,00,629	36,087	+35,140
1913–14	76 (5)	13,744	12,24,346	46,656	+58,103
1914–15	78	15,679	15,36,697	58,086	+82,987
1915–16	96 (6)	21,128	20,51,212	84,703	+98,801
1916–17	97 (7)	23,848	24,62,125	1,18,896	+1,15,508
1917–18	97 (1)	27,495	29,41,059	1,52,978	+1,35,901
1918–19	104 (2)	31,184	34,30,010	1,85,101	+1,48,410
1919–20	124 (?)	37,484	42,16,118	2,20,774	+1,75,892
1920–21	148 (0)	44,014	55,82,847	2,81,236	+2,10,801
1921–22	162 (1)	52,341	66,97,166	3,34,469	+2,47,171
1922–23	186 (3)	62,070	83,19,268	4,14,995	+2,91,486
1923–24	223 (6)	72,553	97,57,447	5,18,642	+3,31,854
1924–25	257 (9)	82,078	1,17,47,138	6,20,831	+4,40,645
1925–26	289 (12)	99,300	1,46,11,123	7,48,190	+5,13,339
1926–27	333 (14)	105,921	1,64,33,952	9,05,792	+5,10,511
1927–28	358 (18)	119,918	1,92,82,590	10,91,600	+6,81,561
1928–29	410 (29)	143,495	2,25,53,222	13,19,723	+7,78,606
1929–30	456 (25)	147,573	2,56,51,015	15,90,571	+8,45,837
1930–31	495 (26)	175,460	2,92,44,288	17,81,172	+9,67,530
1931–32	512 (27)	182,510	3,16,68,381	20,87,655	+10,45,287
1932–33	526 (26)	188,532	3,54,51,038	23,89,415	+9,54,519
1933–34	531 (24)	202,163	4,01,78,995	26,19,025	+11,66,719
1934–35	532 (22)	211,012	4,43,85,049	28,89,640	+11,69,500
1935–36	540 (22)	226,566	4,76,60,771	32,04,889	+12,69,515

* The figures within brackets show the number of credit societies of unlimited liability which are all included in the total figure.

The initial capital was raised by means of shares of the value of Rs. 10. Some of the societies had their share capital, paid in full, while others had called up only half the value of shares and kept the other half as reserve liability of shareholders. Those societies which used their own capital followed the principle of fully paid-up shares as a precautionary measure, and prescribed that no member could borrow more than a certain multiple of the value of shares held. The other societies were founded on borrowed capital and had therefore to keep a reserve liability in the shape of uncalled share values as the basis of credit. The purpose for

which money was borrowed from urban banks during the first decade of their working will be found from the following table giving figures relating to 1911–14 :

TABLE XVIII

PURPOSE OF LOANS OF NON-AGRICULTURAL SOCIETIES, 1911–14
(In Percentages)

	1913–14	1912–13	1911–12
Cultivation expenses	0·99	0·78	0·85
Purchase of cattle, etc.	0·30	0·45	0·95
Rent	0·64	0·59	0·54
Improvement of land	0·43	0·15	2·45
Trade	6·05	6·88	7·73
House repairs	9·80	8·88	11·26
Purchase of land	3·31	4·37	6·23
Maintenance	4·60	5·66	5·18
Payment of debts	50·70	47·99	42·85
Marriage expenses	8·03	12·44	11·10
Other ceremonies	1·90	1·55	1·95
Litigation	0·76	1·08	0·82
Raw materials	0·30	0·95	8·09
Other purposes	11·13	8·17	

It will appear from the table that, as in the case of village credit societies, repayment of old debts is the principal object for which loans were granted. Next in importance come house repairs and trade expenses. It would be interesting to know whether these percentages have changed in recent years. Recent figures, however, are not available, as the Co-operative Department, for reasons best known to them, gave up incorporating these figures in their annual reports. It was time that the Department had reverted to their older and more scientific system.

The urban banks, besides lending money to individuals, granted loans to rural societies. In 1911–12 the loans granted to rural societies amounted to Rs. 2,01,189 as against Rs. 5,82,223 lent to individuals.

Even at the present day their loans to banks and co-operative societies are not inconsiderable. Their total loans to banks and societies amounted to more than 25 lakhs of rupees as against loans to individuals of nearly Rs. 2¾ crores in 1934–35. The loans given to rural societies during the initial stages of the movement served a double purpose. They formed good investments which secured for the urban banks a return varying from 12½ to 18¾ per cent. The rural societies rarely defaulted in paying their dues to urban banks. Such loans played an important part in the development of the co-operative movement. But for this assistance many of the rural societies would not have come into being, particularly in areas not in touch with the Calcutta money market.

It is true that loans by urban banks to village credit societies were not in conformity with co-operative principles. The rural societies were not shareholders of the urban banks. The money was lent by the latter on the recommendation of the Registrar. The village societies did not participate in the management of the urban banks, nor did the latter take part in inspecting and controlling the rural societies. All this may be conceded. But the fact cannot be gainsaid that the financial assistance extended by the urban banks quickened the pace of growth of the co-operative movement in the province. Another element of weakness noticeable in the working of these urban banks was that they tended to degenerate into close corporations set up for the sole purpose of earning high dividends. Barring the Calcutta group of societies in which a maximum dividend was prescribed, in some of the urban banks dividends of 15 to 18 per cent were not uncommon. A rate of 20 per cent was also paid in a few cases. This led the Government in 1912 to prescribe 12½ per

cent as the maximum dividend permissible under the rules.

The growth of non-agricultural credit societies has been due to their own momentum. The employees' societies, particularly those of Calcutta, have been pre-eminently successful. They have had a record of good management. Their overdue loans have been comparatively small, and it is this Calcutta group that possesses more than half the total working capital of the urban societies operating in the province. But when all this has been said in favour of urban banks, it nevertheless remains true that the urban banks as a body have confined their business to moneylending on orthodox lines. The people's banks or the town banks of the *mofussil* have not been successful in attaining the co-operative ideal of the Luzzatti type of banking. They have made hardly any attempt to popularise short-term loans for financing local trade, petty industries and for assisting artisans and craftsmen. Nor have they, barring a few isolated cases, made any attempts to provide modern banking facilities such as opening of current accounts, introduction of the cheque system, remittance business and acceptance and issue of *hundis*.

CHAPTER III

CENTRAL BANKS

Origin and Functions

THE primary agricultural co-operative credit societies in this country are rarely self-sufficient in the matter of capital supply. They are constantly under the necessity of taking recourse to the money market for securing the capital needed for granting loans to their members. But as it is hardly possible for isolated village societies to borrow from the capital market even under most favourable conditions, the necessity arises of creating credit organisations of the second or third degree which will act as intermediaries between the rural societies on the one hand and the outside money market on the other. It is one of the functions of the Central Banks to act as this intermediary. In Western countries Central Banks are expected to act as "balancing centres". On them devolves the task of taking off the surplus capital from rural societies in the slack season and supplying them with capital during the busy season. But Central Banks are needed in this country not so much for balancing purposes, as for supplying capital to primary credit institutions which have little or no owned capital of their own.

In most of the provinces during the early years of the co-operative movement before the advent of Central Banks, the rural societies received the necessary supply of capital either from deposits attracted from non-members or from loans granted by joint-stock banks.

In Bengal the Registrar[1] received deposits from the public and passed them on to the societies, the bonds of the societies being handed over to the depositors. In Burma agents were employed who, in return for a commission of 1 per cent, collected deposits from the public and lent to societies at 9 per cent in accordance with the advice of the Registrar. In Madras the Central Urban Bank, Ltd., a joint-stock concern, received deposits and lent them to societies. In Bombay a Central Bank formed by a number of public-spirited gentlemen tried to take upon itself the task of financing the societies. It was only in the Punjab that the rural societies succeeded in raising enough funds of their own from deposits and share capital. Thus they made themselves independent of any external aid.

As early as 1908 a committee appointed by the Registrars' Conference formulated a number of recommendations, and the germs of the Central Bank idea are clearly discernible in the observations made in this connection by the committee. The committee came to the conclusion that societies could best be financed by means of local funds raised by attracting deposits and sale of shares. Where, however, local funds could not be attracted, it was suggested that the local societies situated within a reasonable distance of one another should federate and form local Unions. If local unions thus formed were not strong enough to attract the necessary capital, there should be a further federation of such unions into Central Unions. These, it was suggested, should be joint-stock companies registered under the Co-operative Credit Societies Act, the ordinary shares being held by societies alone. Additional capital needed in any particular area should

[1] *Report of the Third Conference of Registrars of Co-operative Societies*, 1908, pp. 12-13.

be raised by the issue of preference shares or by long-term deposits from the public.[1]

It is from the unions that the Central Banks in Bengal trace their lineage. The union was a limited liability company, the shareholders of which were societies. The union, called a Central Banking Union, was managed by a board of directors elected by the delegates from societies. Each banking union employed a clerk one of whose duties was to inspect societies. On a report from the clerk (sometimes called an inspector), coupled with personal investigations made by the directors regarding the credit-worthiness of societies, loans were granted. The expenses of the union were met partly by Government, which paid the salary of the clerk, and partly out of profits.[2] These banking unions were successful in attracting deposits and obtaining cash credits from joint-stock banks. They borrowed money at 7 to 9 per cent and lent at 9 to 12½ per cent. In some localities difficulty was experienced in obtaining qualified men to manage them. The rules were therefore so modified as to allow the inclusion of a few individual shareholders. These shareholders, it was expected, would furnish the necessary business experience in the directorate and enlist the support of the educated middle class of the locality in the cause of the co-operative movement. Thus emerged the mixed Central Banks, which were destined in course of time to overshadow the other two types of Central Banks, viz. the purely co-operative and the joint-stock financing institutions.

In tracing the origin of the Central Banks we have hitherto confined our attention to the financing needs of the primary societies. Apart from finance, it was

[1] *Proceedings of the Third Conference of Registrars*, 1908, pp. 12-13.

[2] *Proceedings of Fifth Conference of Registrars*, 1911, p. 19.

necessary in the interest of a vigorous growth of the co-operative movement that some organisation should be evolved which would be in a position to exercise the necessary supervision over the societies. It was felt that the Central Banks were just the agency necessary for supervising purposes. As the Registrar, Co-operative Societies, Bengal, pointed out in 1907:

> "One man can look after possibly 150 to 200 individual societies, but after that his supervision ceases to be effective and the only road to success is through some system of organisation whereby the individual societies will control each other."

The first Central Banking unions in Bengal were started in 1909. In January of that year was established the Khelar Balarampur Union in the district of Midnapur. This was soon followed by the establishment of another union at Raruli in Khulna. These were the pioneer unions of the pure type and included only societies as members. As the first union of this type was established at Khelar, such unions have been known ever since as Central Banks of the Khelar type. In June 1909 a third Central Bank was started at Dacca. It was a new type of bank, and though connected with the co-operative movement, it was not co-operative itself. It was a capitalistic organisation consisting of individual shareholders. The bank had no supervising function, nor did it assess the credit-worthiness of the primary societies to which it granted loans. By the year 1911–12 as many as seven banking unions were established in Bengal.

The year 1912 saw the first establishment of the mixed type of Central Banks at a number of places simultaneously, *e.g.* Pabna, Gaibandha, and Midnapur. In order to secure the assistance of businesslike and

educated people, the rules of the union were modified. The shares were divided into two classes: ordinary and preference. The preference shareholders did not get any loans but were entitled to a preference in the matter of dividend up to a certain limit.[1] The directorate was composed of individuals as well as societies. This scheme was first tried in Nowada in the district of Gaya and from there transplanted to Pabna in Bengal. The mixed type of unions is therefore known as the Pabna type to distinguish it from the Khelar type. These banks enabled the co-operative department to enlist the sympathy of the non-official middle classes. It thus became one of the most powerful agents in the popularisation of the movement during its formative period. Thus by the year 1912 the three types of Central Banks, viz. the Khelar, the Pabna and the capitalistic type, were found working side by side. The capitalistic type received in 1912 a new addition in the Teota Central Bank composed exclusively of the local *zemindars*. But these banks, being non-co-operative, were out of place in the co-operative structure, and in fact the Dacca Bank, already referred to, was converted into a banking union of the mixed type in 1914. At the same time it was decided to dissolve the Teota Bank as soon as its assets could be collected. This, however, could not be done until 1918, when the Teota Central Bank was liquidated, leaving on the field only the pure or Khelar and the mixed or Pabna type of Central Banking unions.

With the establishment of the mixed type of Central Banking unions the co-operative movement may be said to have been formally inaugurated in this province. It was expected that the movement would receive a great impetus from these unions, as they would provide

[1] *Report on the Working of Co-operative Societies, Bengal,* 1911–12, p. 4.

for the financial and supervisory requirements of constituent societies. Apart from this, the Central Banks were expected to take the initiative in the matter of organisation of new societies. From 1913 onwards the organisation of Central Banks was "deliberately pushed with great vigour". Hitherto it had been the policy of the Government to start new Central Banks only in areas which were well supplied with a number of effective primary societies. But now the authorities started such institutions even in untapped areas, if they were satisfied that there was scope for the spread of the movement and that conditions were favourable for the establishment of new primary societies in sufficient numbers. The reasons for this new departure are easily explained. In areas which were not served by Central Banks the Registrar had to depend upon non-official workers for the establishment and supervision of such societies. But it often happened that a sufficient number of non-official workers was not always available. Even if such willing workers were forthcoming, it was noticed that their enthusiasm vanished after they had started a few societies. The Central Banks, however, supplied an organised agency of a permanent nature for the promotion and financing of primary societies.

The development of Central Banks since 1913 as regards number, membership, working capital and reserve fund will be apparent from the table given overleaf.

It will appear from this table that during the early years of the movement individuals far exceeded the affiliated societies in membership. For example, in 1912–13 individual shareholders of Central Banks were as many as 1927, whereas shareholding primary societies numbered only 602. In 1919–20 for the first time the relationship was reversed, and affiliated societies ex-

ceeded the individual shareholders. Since that year, while there has been a steady increase in the membership of affiliated societies, the number of individual

TABLE I

CENTRAL BANKS

Year	No. of Central Banks	No. of Members		Working Capital,* Rs.	Reserve and Other Funds, Rs.	Profit and Loss, Rs.
		Individual	Societies			
1911–12	7†	230	176	3,00,744	..	..
1912–13	17†	1927	602	13,74,303	17,855	+40,553
1913–14	33†	3448	1,153	32,49,243	35,658	+83,761
1914–15	..	3313	1,607	40,88,613	75,072	+1,11,321
1915–16	39	3455	1,913	46,49,377	1,11,901	+1,08,588
1916–17	44	4096	2,572	58,89,950	1,46,008	+1,20,715
1917–18	52	4277	3,124	67,52,191	1,72,818	+1,64,100
1918–19	58	4160	3,673	82,60,976	3,71,576‡	+1,46,613
1919–20	64	4290	4,760	1,04,04,895	4,67,518	+2,30,208
1920–21	71§	4206	5,620	1,21,22,554	5,81,936	+2,50,022
1921–22	73	4335	6,029	1,30,55,375	7,17,328	+2,86,580
1922–23	89	4640	7,082	1,51,25,775	8,65,684	+2,78,285
1923–24	91	4168	8,289	1,75,06,244	9,47,051	+3,56,113
1924–25	93	4256	9,746	2,05,84,034	11,41,272	+3,98,816
1925–26	98	3945	11,152	2,49,41,469	13,20,276	+4,82,934
1926–27	103	4091	13,235	3,03,22,481	15,51,899	+6,10,025
1927–28	110	4198	15,568	3,50,68,269	18,78,979	+8,24,022
1928–29	113	4376	17,019	3,92,76,446	22,74,096	+8,34,965
1929–30	116	4652	19,071	4,55,71,210	26,51,643	+8,53,561
1930–31	119‖	4747	20,278	4,88,69,624	30,53,679	+8,81,531
1931–32	119‖	4707	20,320	4,95,75,137	35,93,730	+8,18,579
1932–33	119¶	4833	20,160	5,13,72,513	40,59,767	+7,44,611
1933–34	118‖	5032	20,054	5,19,14,576	45,65,037	+7,31,645
1934–35	118‖	5160	19,037	5,17,45,082	50,73,302	+7,72,433
1935–36	118	5658	19,915	5,18,11,606	55,55,459	+9,02,020

* Share capital and loans and deposits (total) + Reserve and other funds.

† Central societies were classified into Central Banks, and banking unions of pure and mixed types as distinguished from supervising unions, whose functions are entirely different.

‡ This and the following figures include reserve and other funds, whereas the other funds have been omitted from the previous figures. With the other funds included the figure for 1917–18 will be as Rs. 2,65,960.

§ Three banks did not operate. *N.B.*—The non-operating banks are included in the second column, but excluded from the rest.

‖ One bank did not operate.

¶ Two banks did not operate.

members has remained fairly constant. In 1934–35 the number of individual members was 5160 while society members numbered as many as 19,037. The fact is that Central Banks from 1920 onwards tended to veer

round from the mixed to the co-operative type organised without any issue of preference shares. The actual method by which this change-over was brought about was either not to issue any fresh preference shares, or to redeem and reissue them as ordinary shares to societies. As the Central Banks increased in number, an attempt was made to make the areas served by these institutions as compact as possible with a view to localising the finance and supervision, and recourse was generally had to the pure type of Central Bank to carry out this policy.

In 1935, out of 118 Central Banks in Bengal 49 were of the pure or co-operative type, while the rest belonged to the mixed category. The Bengal Banking Inquiry Committee remarked:

> "An ideal Central Bank is of the pure type composed of primary societies only. . . . The ultimate aim should be to educate the representatives of rural societies and to build up their capital to such an extent as to make it possible to eliminate the individual shareholders."

It is, however, doubtful whether the existing Central Banks of the pure type in Bengal inspire that degree of confidence in the investing public which we find normally associated with mixed Central Banks. The Central Banks of the pure type have not generally been able to attract private deposits to the same extent as mixed Central Banks have done. The pure Central Banks composed of representatives of primary Societies are mere conduit pipes for drawing funds from the Provincial Co-operative Bank or from Central Banks for the purpose of distributing loans to primary societies. In the district of Mymensingh, for instance, the Central Banks of the pure type have hardly been in a position

to obtain even a small porportion of their working capital by means of deposits from individuals. In 1935, out of a total number of 11 Central Banks in the district

TABLE II

CENTRAL BANKS

Serial No.	District	No. of Central Banks	Number of Affiliated Societies		Working Capital		Population	
			Total No.	Average per Central Bank	Total, Rs. (Lakhs)	Average per Central Bank, Rs. (Lakhs)	Total	Average per Central Bank, (Lakhs)
1	24 Perganas .	5	692	138	9·2	1·8	27·1	5·4
2	Nadia . .	5	970	194	22·2	4·4	15·3	3·1
3	Jessore .	4	740	185	19·6	4·9	16·7	4·2
4	Khulna .	3	694	231	12·2	4·1	16·7	5·4
5	Murshidabad	4	634	159	18·7	4·7	13·7	3·4
6	Burdwan .	4	936	239	34·2	8·5	15·8	3·9
7	Birbhum .	4	1,157	289	17·9	4·5	9·5	2·4
8	Bankura .	2	435	218	5·1	2·5	11·1	5·5
9	Midnapur .	7	1,222	175	24·1	3·4	28·0	4·0
10	Howrah .	2	60	30	0·4	0·2	11·0	5·5
11	Hooghly .	2	270	135	10·9	5·4	11·1	5·6
12	Dacca . .	9	1,482	165	45·0	5·0	34·3	3·8
13	Bakharganj .	7	1,158	165	34·9	5·0	29·4	4·2
14	Mymensingh.	11	1,810	165	70·6	6·4	51·3	4·7
15	Faridpur .	4	1,112	278	25·2	6·3	23·6	5·9
16	Chittagong .	2	292	146	8·1	4·0	18·0	9·0
17	Tippera .	8	1,779	222	49·4	6·2	31·1	3·9
18	Noakhali .	6	832	139	19·9	3·3	17·1	2·8
19	Dinajpur .	3	400	133	6·5	2·2	17·6	5·9
20	Malda . .	4	347	87	7·0	1·7	10·5	2·6
21	Rajshahi .	4	729	182	12·7	3·2	14·3	3·6
22	Pabna . .	5	861	172	24·3	4·9	14·5	2·9
23	Bogra . .	5	671	134	20·0	4·0	10·9	2·2
24	Rangpur .	4	535	134	14·3	3·6	25·9	6·5
25	Jalpaiguri .	1	121	121	1·7	1·7	9·8	9·8
26	Darjeeling .	3	115	38	5·0	1·7	3·2	1·1
	Total .	118	20,054	170	519·1	4·4	50·1	4·3

N.B.—Averages have been calculated from complete total figures and not the total figures given here in lakhs.

as many as 6 belonged to the pure type. These pure Central Banks received only Rs. 2 lakhs by way of deposits from individuals, while the remaining Central

Banks, numbering 5, received deposits to the extent of Rs. 28 lakhs. Out of Rs. 24 lakhs received by way of loans from the Provincial and Central Banks, the Central Banks of the pure type appropriated about 11 lakhs, while the remainder went to the mixed Central Banks. Thus it appears that in the case of pure Central Banks out of a total working capital of Rs. 13 lakhs, only Rs. 2 lakhs came from individuals. The mixed Central Banks, numbering only 5, had a working capital of about Rs. 41 lakhs, out of which as much as Rs. 28 lakhs came from individuals.

The table given on page 62 (Table II) shows the distribution of the Central Banks in Bengal by districts, the number of societies affiliated to Central Banks, their working capital and the population of the districts in which such banks operate.

It will appear from an analysis of the figures given in this table that there are great variations in the size of Central Banks in Bengal. At one extreme we have a district with 2 Central Banks and an average of only 30 affiliated societies per Central Bank. At the opposite extreme we have administrative areas with 4 Central Banks with an average of 289 affiliated societies. Similar wide variation exists in regard to working capital which ranges from Rs. 0·2 lakh per each Central Bank to an average of Rs. 8·5 lakhs. In this connection we may recall the precept laid down by the Maclagan Committee on Co-operation [1] regarding the optimum size of a Central Bank and its area of operation. The Committee remarked:

> " Although it may commence on a small scale, it cannot expect ultimately to work at a profit unless it has a considerable capital, and we think that a Central Bank should ordinarily deal, either at once

[1] *Report of the Committee on Co-operation*, p. 60.

or within a reasonable time, with at least 200 to 250 societies."

Conditions in Bengal are nowhere near this ideal.

The fact is that in pursuit of a policy of establishing pure Central Banks which were held out as the co-operative ideal, the area of operation of many of the fairly successful Central Banks of the mixed type was encroached upon with results not always conducive either to economy or efficiency. In Bengal there are instances of Central Banks operating within an area of ten miles of each other. These rely for the supply of their working capital on doles given by the Provincial Bank or neighbouring Central Banks. The position of such Central Banks has been described by a well-known non-official co-operative worker in this province in words which will bear repetition.[1] He remarked:

> "A Central Bank that is unable to secure a fair share of the capital that it needs from its area and depends almost entirely on the Provincial Bank or some other co-operative society, that has failed to enlist the support of public-spirited individuals ready to devote their energies to the work of their society, that is not able to propagate the principles of co-operation among the members of its constituent societies, and that is always dependent on the department for help and guidance and whose affiliated societies consist mainly of members who consider co-operative societies as bodies which exist mainly for supplying them with the funds that they may require, funds that they may not repay, should not be allowed to masquerade as a co-operative bank."

The only alternative in such a case is to bring about the

[1] Article by S. K. Lahiri on "Central Co-operative Banks in Bengal", *Indian Co-operative Review*, July 1936.

amalgamation of such banks with a neighbouring Central Bank.

The Central Banks as they passed through their period of tutelage and adolescence had to contend with a number of difficulties. Perhaps not the least formidable of the obstacles which prevented the establishment of a healthy and vigorous co-operative movement was the tendency to leave the management entirely in the hands of the paid officers in regard to granting loans or in organising societies. This tendency was to some extent corrected when, in 1916–17,[1] a new policy was initiated by the Department of Co-operation. Some of the well-organised societies introduced at the instance of the Registrar the practice of paying fees and travelling allowances to directors with a view to encouraging them to attend committee meetings and go on inspection tours. Working committees were organised with powers delegated to them by the general meeting. It was noticed that the formation of these committees generally led to an improvement in the working of the societies. The diaries of the working staff of the Central Banks were more thoroughly scrutinised and instructions issued by the secretaries for their guidance. Equally detrimental to the progress of the movement was the tendency noticeable in the working of some of the Central Banks to leave the management entirely in the hands of one or two prominent directors. This is a defect which has persisted from the very beginning, and it is doubtful if there has taken place any improvement in this respect even at the present time. Unless the representatives of the village societies and shareholders take a more active interest, it is futile to expect the working of Central Banks to improve.

[1] *Report on Co-operative Societies, Bengal,* 1916–17.

Early in their career the Central Banks were confronted with the problem of accommodation in the busy season and investment of idle money in the slack season. For a time this difficulty of accommodation was met by the grant of loans from the Government and of cash credits from the joint-stock banks. Thus during 1915–16 the Government of Bengal advanced Rs. 5,600, while the cash credit granted by the Alliance Bank of Simla and the Bank of Bengal was Rs. 5,95,000, out of which only Rs. 2,16,000 was drawn, the undrawn amount remaining as a fluid resource. In 1916–17 ten Central Banks had cash credits to the extent of Rs. 5,31,800, out of which about Rs. 2,73,000 was drawn. The problem of investing idle money during the slack season was tackled by investment in Government securities and keeping deposits with Postal Savings and other banks. But it became apparent that these expedients were mere palliatives and resulted in unnecessary loss to the Central Banks. Owing to the low state of the credit of Central Banks, they had to pay heavily for the accommodation obtained. Investments of idle funds in the slack season also entailed much loss of interest. The establishment of the Provincial Co-operative Bank in 1918 partially afforded relief to the Central Banks in this direction and at the same time completed the structure of co-operative credit in this province.

It is an accepted principle of sound banking that a bank should not invest its funds for a longer period than that for which its deposits are entrusted. If the bulk of its deposits are for short-term, a bank cannot afford to tie up its resources in long-term investment. Attention was drawn to this aspect of the problem at the Seventh Provincial Co-operative Conference by His Excellency Lord Carmichael. But the banks found by

experience that the deposits, even the short-period ones, were invariably renewed after the expiry of the stipulated period. The interest which the banks had to pay on such deposits was lower than that allowed on long-term funds. The Central Banks therefore invariably showed a partiality for such short-term deposits. The bulk of the loans, however, in this province are given for repayment of old debts.[1] It is therefore idle to expect a high percentage of repayment of outstanding loans. This, however, introduces an element of danger in the working of the Central Banks, so far as their relations with depositors are concerned.

The following table will show the total amount of loans outstanding, loans granted, the percentage of repayments together with interest collected during 1913–1914 to 1915–16:

TABLE III

Year	Loans Outstanding at the Beginning of the Year	Loans Granted during the Year	Total	Amount Collected during the Year	Percentage of Collection on Loans Outstanding at the End of the Year, plus those given out during the Year	Interest Collected during the Year
1913–14	12,65,998	22,67,718	35,33,716	5,10,652	14·45	1,83,857
1914–15	31,01,490	9,46,880	40,48,370	2,68,041	6·62	2,63,777
1915–16	37,67,420	13,95,000	51,62,420	7,91,607	15·33	4,27,331

The fact is that the differentiation of functions in meeting the various credit needs of the agriculturist — long-term, intermediate and short-term credit — was not understood at the time of the inception of the Central Banks. It was overlooked that it should never be the function of Central Banks or primary societies to help in the repayment of ancestral debts.

[1] *Bengal Report*, 1915–16.

Supervision

Much of the success of co-operative credit organisation depends on the maintenance of a system of checks and balances between primary credit organisations and Central Banks. The rural societies hold shares in Central Banks, borrow from them, and are required to keep their reserves in such institutions. Their representatives on the directorate of the Central Bank are expected to take an active and intelligent interest in the affairs of the financing institutions and to safeguard the interests of affiliated societies. On the other hand, the duty devolves on the Central Banks to supervise the financial transactions of primary societies and to rectify mistakes and irregularities that might be noticed in the working of such societies. Each unit in the co-operative organisation has its rights and responsibilities and a failure to recognise them has often resulted in friction and ill-feeling.

The question of supervision of primary societies has given rise to a good deal of difference of opinion in India. What is the agency that is best fitted to undertake this supervision? To answer the question it is necessary to be quite clear in our minds as to what is precisely conveyed by supervision. For much of the controversy has been due to a failure to appreciate the real significance of supervision. "Inspection", "supervision" and "control" are some of the terms that are used in this connection, and attempts are made to introduce hair-splitting differences between these functions. But from the very nature of things such distinctions are often unreal and useless. The fundamental fact that has to be borne in mind in this connection is that the primary societies are predominantly borrowers

from Central Banks. These banks therefore owe an obligation to their depositors. They should therefore make sure that credit is properly assessed by affiliated societies, that there exists a genuine need for loan, and that the money borrowed from Central Banks is actually used for the purpose for which it is taken. Obviously it is not the function of Government through its Co-operative Department to scrutinise the loan operations of affiliated societies. Even if such a course were practicable, it would be open to the objection that such supervision would militate against co-operation. It was suggested by the Royal Commission on Agriculture[1] that, following the lead of European countries, India might with advantage entrust the work of supervision and guidance to unions formed by a federation of primary societies. The Townsend Committee on Co-operation also recommended supervision by unions. As conceived by this Committee, an ideal union would consist of 25 affiliated primary societies all within a radius of seven miles. The functions of this union should be to recommend loan applications, to rectify irregularities brought to light and to see that *panchayatdars* do not take advantage of their position and monopolise most of the funds available for the grant of loans. The Committee made a distinction between inspection and supervision. By inspection the Committee meant an inquiry into the financial status of a primary society, whereas supervision involved administrative assistance in routine matters, advice on financial transactions and general guidance on business aspects. They urged that while inspection was a part of the normal duty of Central Banks, supervision was not. The duty of supervision was therefore assigned to the unions. This distinction was based on the theory that

[1] *Report of the Royal Commission on Agriculture*, p. 452.

the primary duty of a Central Bank was to provide funds for the affiliated societies. But it was no part of its duty to interfere in the domestic affairs of its clients. Financing banks, whether co-operative or commercial, are entitled to keep themselves conversant with the circumstances of their clients, and to satisfy themselves that the money is required for some legitimate purpose. But supervision goes further than the mere collection of information. It implies not merely ascertaining what is wrong, but also the adoption of steps for setting matters right. The Townsend Committee, therefore, recommended supervision by unions. The Committee remarked :

> " In some provinces this function is performed by the banks, but we do not consider this to be the ideal arrangement. The evidence we received, including that from the banks themselves, was strongly in favour of vesting the duty in unions, as at present."[1]

All this has introduced an element of confusion and overlapping of duties. It has also meant a division of responsibility in financial matters which is undesirable alike from the co-operative as well as from business aspects. If there was a clash of interests between the financing banks and the affiliated societies, there would be a strong argument for separating finance from supervision. But as a matter of fact, far from there being anything antagonistic between the two, their interests are identical. The primary societies are well represented on the directorate of Central Banks. Further, dividend-hunting is restrained by rules framed under the Act. A distinguished co-operator remarked in this connection that to deprive Central Banks of their rights of supervision would be to divorce power from responsi-

[1] *Townsend Committee on Co-operation*, 1927–28, p. 70.

bility. It was irrational that Central Banks should attract money, while some other body should supervise the institution to which the banks advanced money.[1] It is necessary to bear in mind in this connection that one of the principal reasons why a union fails to exercise effective supervision over primary societies is that it has no material interest in binding them together. In this respect it differs fundamentally from a guarantee union which has the necessary cash *nexus*. link

The theory that finance should be divorced from supervision was given a fairly prolonged trial in the presidency of Madras. But even there, after an experiment lasting for about a decade, the Government have come round to the view that the agency best fitted to supervise primary societies is the Central Bank working with the help of unions. For more than ten years the Central Banks had no direct part in supervision beyond making grants to the supervision fund. But all this has now changed, and Central Banks have established what are known as "administrative sections" to help them in the work of supervision.[2]

During the early years of the co-operative movement in Bengal, when the credit societies were yet in an experimental stage, an attempt was made to foster the development of supervising unions. But the experiment was not successful. During 1913–14 for the first time as many as six unions were registered. These unions were limited liability societies. They were expected to supervise the working of societies, recommend loans and also to guarantee the sums advanced. Their working expenses were met partly from contributions

[1] The Honourable V. Ramdas Pantulu's remarks, *Tenth Conference of Registrars*, 1928, p. 26.

[2] Article by T. R. Nagaraya Rao in the *Indian Co-operative Review*, July 1936, on "Co-operative Central Banks in the Madras Presidency—History and Progress".

from affiliated societies and partly from the proceeds of investment of share capital. Donations were also made by financing agencies or Central Banks. In 1915–1916 the number of unions rose to twelve. The introduction of an agency between the affiliated societies and the Central Banks proved a source of trouble and the Central Banks for the most part wanted to deal directly with the affiliated societies. The spirit of co-operation between neighbouring societies was non-existent. There was also a dearth of suitable men to run these agencies. The introduction of the audit cess system [1] put further difficulties in the way of these unions. The result was that in 1918–19 these unions entered upon a period of decline and in 1921–22 only six unions remained in the field, though their guarantee business was abandoned once for all. From 1922 onwards the unions did only supervision work, but even in this rôle they were not much of a success. By 1927–1928 the number of unions fell to three. In Burma the Calvert Committee on Co-operation, 1928–29, reported that in regard to the main function of assessing the credit of affiliated societies the union must be pronounced a failure. They remarked that the greatest evil inflicted by the union system arose from the growth of its own importance in the eyes of everyone. It was an inefficient body at best, and quite incapable of performing the duties thrust upon it.

The only province where supervision by unions is fairly successful is the Punjab. But the chief reason for the success of this system in the Punjab is to be found in the fact that most of the directors of Central Banks are illiterate.[2] Audit and supervision are there-

[1] *Bengal Report on Co-operative Societies*, 1916–17, p. 7.

[2] Speech by Mr. Noor Mohammad, *Tenth Conference of Registrars*, 1928, p. 26.

fore carried out by the co-operative union through its staff of sub-inspectors.

In 1935 there were 666 supervisors in Bengal working under Central Banks and paid by them. In addition there were 21 supervisors who, though they worked under Central Banks, were paid by the Registrar. The payment of the salaries of these officers was meant as a subsidy by the Government to those Central Banks which could not afford to engage the services of qualified supervisors. With a view to introducing uniformity of procedure with regard to the payment of salary and travelling allowance to these officers, it has been decided that for a period of six months from the date of registration of a new Central Bank, the Government will bear such charges. For the next six months only the pay of such officers is to be borne by the Government, but their expenses in regard to travelling allowance should be taken over by the bank. From the second year Central Banks should take full responsibility for the officers employed.

Arrangements are made by the Registrar for the training of the newly appointed supervisors in audit, inspection and organisation. All supervisors doing independent inspection work are required to hold a licence from the Registrar. Such licences are issued only for a year, but they are renewable on an application being made by Central Banks on behalf of their inspecting officers.

The supervisors are the chief instruments of Central Banks for carrying out their policy. They are required to inspect all societies once a quarter and to rectify any mistakes that their inspection might disclose. Amongst other things, they must see that the property registers, on the basis of which the credit of all affiliated societies is assessed, are brought up to date and whether

any society has exceeded the maximum borrowing limit. They are required to verify the cash balance and to inquire whether the instalments (*kists*) for repayment of deposits and borrowings are suitable.

Apart from an examination of these financial transactions with which the interest of Central Banks is intimately bound, supervisors are also expected to take an intelligent interest in all matters that might ultimately affect the co-operative spirit. For example, it is one of the functions of supervisors to inquire if there is any friction in the village prejudicial to the healthy growth of the co-operative movement. He is also required to make suggestions for improving the conditions of the society.

The duties of a supervisor may be summarised briefly under the following heads:

(1) To prepare Property and Debt Register for members of primary societies.
(2) To assess normal credit and report on loan applications.
(3) To make a preliminary examination of the accounts of primary societies and to verify cash balances.
(4) To educate people in the principles of co-operation.
(5) To rectify irregularities.
(6) In recent years supervisors have also been called upon to help in collection of debts.

But the staff employed by most Central Banks is woefully inadequate to discharge even a fraction of these duties. This will be apparent from the fact that in 1935 there were over 19,000 primary credit societies with a membership of 4½ lakhs of persons. The total number of supervisors employed by the Central Banks was 666. The average number of members of primary societies entrusted to each supervisor was therefore over

600. It is not difficult to understand why supervision has usually degenerated into a routine business in these circumstances.

The Assessment of Normal Credit

One of the most important duties of a supervisor is the assessment of the maximum borrowing powers of societies. The practice in Bengal in regard to assessment of normal credit is different from that in some other provinces. Where there is a danger that financial agencies and depositors are not likely to exercise proper control over lending operations, power is given to the Registrar to revise the limits fixed by Central Banks. In the Punjab and Ajmer-Marwara, the Registrars have the right to reduce borrowing powers fixed at a general meeting. In the Central Provinces the Registrar fixes a limit in excess of which societies are not allowed to borrow. In Bengal, Bihar and Orissa, however, the Registrars undertake no responsibility in the matter of fixing borrowing powers of societies with unlimited liability.[1] Primary societies holding shares in Central Banks are entitled to accommodation in the shape of loan or cash credit up to ten times the paid-up share capital. This rule fixes a limit to the outside borrowing of primary societies. Within that maximum the amount of loan available to a primary society depends on the assessment of what is known as the Normal Credit.[2] For each individual member of a primary society his normal credit is the amount required for meeting his "annual recurring cultivation expenses" on such items as seeds, manures, payment of wages to daily labourers and the cost of maintaining his family.

[1] *Proceedings of Ninth Conference of Registrars*, 1926, p. 43.

[2] Circular No. 11 of 1922. *Evidence before Bengal Banking Inquiry Committee*, vol. ii. p. 466.

The area under each kind of crop and the average cost of cultivation will obviously have to be taken into account in determining the cultivation expenses. The sum-total of the normal credit of each individual is the basis for the assessment of the normal credit of a primary society. From the total credit needs of a society a deduction has to be made in respect of funds that a primary society can command from its own share capital and reserve fund and local depositors, if any. The balance that remains is the normal credit for a society which a Central Bank will be called upon to furnish. A primary society is required to keep a Property and Debt Statement for each member. The estimate of normal credit has to be considered together with the property and debt statement, and it is regarded as one of the principal duties of a supervisor to certify that the loan statement agrees with the details given in the property statement.

It appears, however, from the testimony of officials[1] competent to speak on this matter that the procedure outlined above is rarely followed. What is usually done is that when a village society submits an application for loan, it is referred to the area supervisor for inquiry and report. If the Central Bank does not possess sufficient funds, as is more frequently the case, the applications are forwarded to the Provincial Bank. Pending the disposal of this loan application the ryot takes recourse to the *mahajan*. When the application is finally sanctioned, the ryot unhesitatingly accepts a fresh loan from a village society. If the procedure contemplated by the Registrar's Department had been followed and normal credit assessed in the proper manner after careful scrutiny, it would have been

[1] Evidence of Mr. S. Chatterjee, M.A., Assistant Registrar, Co-operative Societies, *Report of the Bengal Banking Inquiry Committee*, vol. ii. p. 465.

possible to dispose of loan applications with greater despatch. Most Central Banks in Bengal are, however, unable to carry out the directions of the Co-operative Department owing to the fact that the supervisors employed by Central Banks are too few, having regard to the multiplicity of duties that are expected of them. The assessment of normal credit is no easy task in this country. For one thing, the ryot is not always eager to co-operate with the supervisors. A member of a primary society may have his own reasons for not giving a full account of his property and debts. In such circumstances the supervisors may have to pay several visits for the purpose of assessing the credit of one single member. Normally a supervisor has to ascertain the property and debt of, say, about 600 or 700 members, on top of his other duties. This function of assessing credit is therefore regarded as the least important of the many functions that a supervisor is called upon to discharge. A credit society is thus unable to make sure that money is advanced only for meeting essential expenses or that the sums borrowed are spent for purposes for which loans are given. It is, therefore, hardly possible for co-operative societies to discharge their most elementary and essential function.

We realise that in thus emphasising the importance of property and debt statement, we are apt to ignore the fundamental basis of co-operation. Co-operative credit rests essentially on the principle of capitalisation of honesty and the productive use of money. The financing of societies on the sole basis of property to the neglect of vital co-operative principles penalises those better classes of societies which are able to borrow on the basis of repaying capacity. One is, however, apt to lose sight of several important considerations in this connection. In the first place, situated as we are

in Bengal, barely 2 per cent of the credit societies belong to the category of successful co-operative institutions. Capitalisation of honesty is, therefore, practically unknown. Besides, loans are generally utilised for the repayment of ancestral debts and the redemption or purchase of land. In such circumstances, the emphasis on material security not only seems to be justified but is essential.

Working Capital

The working capital of co-operative Central Banks, and indeed of all banking institutions, may be divided into two categories: owned capital and borrowed capital. Owned capital consists of share capital and

TABLE IV *

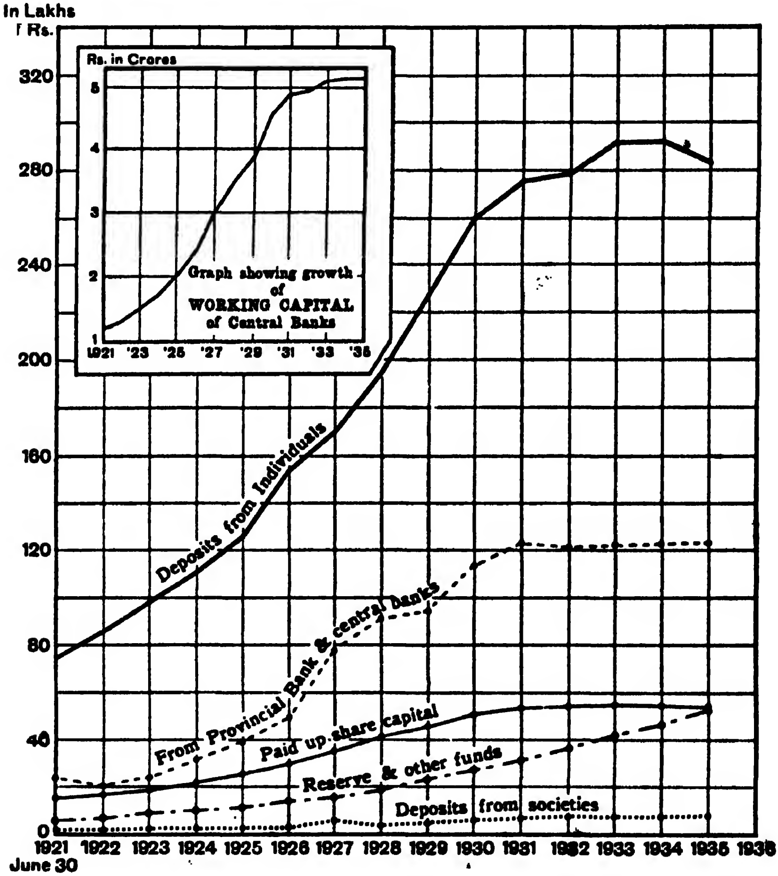
Year	Paid-up Share Capital	Loans and Deposits with the Central Banks held at the End of the Year from—			
		Societies	Provincial or Central Banks	Government	Individuals or Other Sources
1914–15	4,89,548	1,17,689	..	8,000	33,69,252
1915–16	6,52,907	98,773	19,000	5,600	37,61,196
1916–17	8,73,351	61,850	1,03,149	3,600	47,01,992
1917–18	10,12,989	74,562	12,88,693	2,200	42,00,929
1918–19	11,72,296	1,58,447	17,02,687	800	48,55,170
1919–20	13,78,136	1,49,739	18,74,842	13,200	65,21,460
1920–21	15,58,882	1,48,210	23,92,441	10,000	74,31,085
1921–22	16,52,237	1,46,231	20,46,963	47,000	84,87,916
1922–23	18,56,700	2,58,585	23,65,770	1,000	97,78,036
1923–24	21,54,922	2,53,701	31,29,114	..	1,10,21,456
1924–25	25,29,236	3,34,442	39,41,350	6,272	1,26,31,462
1925–26	29,57,796	3,39,381	49,37,159	..	1,53,86,865
1926–27	35,63,460	4,56,425	77,44,509	..	1,70,06,188
1927–28	41,09,640	3,89,524	91,82,016	..	1,95,03,110
1928–29	45,83,770	4,39,343	93,50,432	..	2,26,28,805
1929–30	51,52,054	4,88,714	1,12,76,016	..	2,60,02,783
1930–31	53,32,213	6,15,676	1,22,55,581	..	2,76,12,475
1931–32	53,55,365	7,15,795	1,20,39,891	..	2,78,70,354
1932–33	53,92,280	7,32,365	1,21,38,177	..	2,90,19,974
1933–34	53,59,039	7,37,557	1,22,57,592	..	2,89,95,351
1934–35	53,33,407	7,83,766	1,22,71,233	..	2,82,83,374
1935–36	52,02,886	8,89,790	1,21,83,520	..	2,78,79,951

* For reserve fund see Table I.

reserve fund, while borrowed capital is made up of deposits and loans.

The table given on page 78 (Table IV) will show the main items of the working capital of the Central Banks in Bengal from 1914 to 1936.

The growth of the total working capital and of its constituent elements during 1921–35 is illustrated in the graph given below:



So far as Central Banks' share capital is concerned it forms a very small proportion of the total working

capital. The affiliated societies are bound under the by-laws to take up share capital in proportion to their borrowings. In Bengal such laws provide that the shareholding societies are entitled to accommodation in the shape of loans or cash credits up to ten times the actual paid-up value of shares in the Central Banks subscribed by such societies.[1] As a general rule the share capital held by affiliated societies is payable in instalments. Whether the share capital is paid in instalments or in one lump sum, there are reasons to believe that this share capital is often the outcome of book adjustments against loans. This practice, it is interesting to note, is not peculiar to the province of Bengal. In Burma, for instance, the Calvert Committee on Co-operation, 1928–29, drew the attention of the Government to a similar system and pointed out that it was open to grave objections. The Committee argued that by following this practice a Central Bank was virtually buying its own shares out of its working capital. They therefore recommended that, as a rule, a primary society should buy shares in Central Banks out of its own capital.[2]

It will be evident from the graph given above that the principal sources from which the working capital is derived are deposits from individuals and loans from Provincial Banks. Here again the rules provide a rigid proportion between owned capital and borrowed capital. For Bengal the proportion fixed is 1 : 10. In other words, the limitation imposed on Central Banks is that they cannot incur liabilities exceeding ten times the value of their total paid-up share capital and reserves for the time being separately invested outside their own business. The proportion of 1 : 10 is laid down as the

[1] Section 59 of Model By-Laws of Central Banks.
[2] *Report of the Calvert Committee on Co-operation*, p. 58.

minimum, and Central Banks are enjoined that they should try to ensure that the proportion which owned capital bears to the total liability is as high as possible. In the province of Madras the ratio fixed is the same as in Bengal. An exception is made in the case of the Madras Provincial Co-operative Bank, which is allowed to borrow up to twelve times the sum of its capital and reserve.[1] In Bombay the proportion fixed is 1 : 8.

The argument has been advanced that as the imposition of a rigid rule like this might lead to hardships in the case of some Central Banks, it should be done away with altogether, or at any rate modified in favour of the banks. The principal argument advanced in favour of the abolition or relaxation of this rule is that the resources of affiliated societies do not permit them to contribute more largely to the share capital of Central Banks, which are therefore forced to rely mainly on deposits for their working capital. Besides, as a low maximum dividend is generally prescribed by the rules, the temptation to get a large dividend is non-existent. The outside liability in such circumstances may be larger in relation to the owned capital.

It has, however, to be kept in view in this connection that co-operative banks from the very nature of their operations are unable to invest the bulk of their funds in readily realisable paper as Government securities or in such instruments of self-liquidating character as bills of exchange. It is in securities of this kind that ordinary commercial banks are apt to invest their working capital. But the securities which the Central Banks hold for their loans, namely, the promissory notes of primary societies, are incapable of being turned into cash in the ordinary money market.[2]

[1] Calvert, *Law and Principles of Co-operation*, 1933, p. 198.
[2] *Report of the Maclagan Committee*, p. 109.

Central Banks suffer from the further disability that the turnover of their working capital is not so quick as in the case of joint-stock banks doing commercial business.[1]

Nor is it possible to ignore the very important consideration that rediscounting facilities which are always available to joint-stock banks in a well-ordered money market are not yet available to the Central Banks. It is true that in the past Central Banks have received assistance from the joint-stock banks or the Imperial Bank. Such assistance has taken the form of loans or cash credits for definite amounts. But such assistance has not always been forthcoming in all provinces.[2] Even when outside aid has been offered to the co-operative banks, the continuance of this assistance has been uncertain,[3] and in some cases it has been dependent on the personal guarantee of men of substance connected with the co-operative movement.

It is also premature to expect any assistance with regard to the provision of rediscounting facilities from the Reserve Bank of India. For the *Report of the Agricultural Credit Department of the Reserve Bank* makes it a necessary condition for the grant of such rediscount facilities that the long-term debts of Central Banks must be separated from short-term debts and be scaled down to a level at which there is a reasonable prospect of the payment of such debts out of the profits of agriculture within a period of twenty years. The report observes as follows in regard to the duties of the Reserve Bank :

> "Agricultural paper which represents the renewal of old loans through Provincial Co-operative Banks is not suitable for rediscount by the Reserve Bank.

[1] Mehta, *Studies in Co-operative Finance*, p. 131.
[2] *Report of the Maclagan Committee*, p. 109.
[3] *Report of the Madras Banking Inquiry Committee*, pp. 170-71.

Even in the case of genuine short-term financing, the Reserve Bank would be loth to rediscount paper representing such transactions in view of the other long-term commitments of the co-operative banks."[1]

The problem of the volume and the nature of deposits in Central Banks has also to be considered in relation to the investment policy pursued and the fluid resources maintained by them. Attention has already been drawn to the policy adopted by the Central Banks from the very beginning of their career in attracting short-term deposits and investing them in long-term loans in supreme disregard of the elementary rule that it is unsafe for any banking institution to invest its funds for longer periods than is warranted by the terms of the deposits entrusted to it.

TABLE V

DEPOSITS, ETC., HELD AT THE CENTRAL BANKS, CENTRAL ANTI-MALARIAL SOCIETY, PRODUCERS' UNIONS, FROM INDIVIDUALS AND OTHER SOURCES

(In Thousands of Rupees)

End of the Year	On Current or Savings Bank Account	For not more than Three Months	Maturing within a Year	Maturing within Two Years	Maturing within Three Years	Maturing after Three Years	Total
1922–23	..	1,68	28,24	25,41	15,16	17,63	..
1923–24	..	1,07	35,15	26,32	16,97	19,39	..
1924–25	..	1,56	37,64	30,59	20,44	23,41	..
1925–26	20,66	2,04	51,43	33,31	20,59	25,84	153,87
1926–27	23,86	1,55	55,61	36,07	15,14	27,97	160,20
1927–28	23,42	1,14	56,47	42,54	33,59	33,96	191,12
1928–29	29,73	1,43	59,12	36,61	42,92	186,83	356,64
1929–30	28,65	2,60	66,29	66,43	42,88	51,53	258,38
1930–31	27,74	2,06	82,52	60,04	52,81	49,82	274,99
1931–32	29,34	2,03	87,09	60,30	43,60	54,96	277,31
1932–33	34,16	1,98	107,05	57,06	39,28	48,73	288,26
1933–34	37,94	2,99	106,49	52,47	41,94	45,72	287,55
1934–35	44,59	3,22	93,78	55,95	37,28	45,45	280,27

[1] *Report of the Agricultural Credit Department of the Reserve Bank of India*, p. 21.

The table above (Table V)[1] will show the time composition of the deposits in Central Banks in Bengal during 1922–35.

It will appear from the table during 1934–35, out of a total deposit of Rs. 280 lakhs no less than 141 lakhs consisted of current or saving deposits, short-term deposits and deposits maturing within a year. Statistics, however, are not available for the year showing the nature and the purpose of the loans. But the following figures relating to the agricultural societies during 1911–12 to 1913–14 will show roughly the nature of the investments :

TABLE VI

PURPOSE OF LOANS OF AGRICULTURAL SOCIETIES

(Principal Items in Percentages)

Year	Payment of Debts	Cultivation	Purchase of Cattle	Maintenance	Trade	Purchase of Land	Marriage
1911–12	48·8	13·3	9·0	6·5	5·7	4·4	4·0
1912–13	40·1	10·4	10·3	11·9	10·0	5·1	. .
1913–14	43·7	9·1	10·1	15·1	7·2	5·5	2·6

It will appear from these figures that about 50 per cent of the loans were used for meeting the long-term requirements of the borrowers.

Judging from the figures relating to the percentage of repayments to loans outstanding in the case of Central Banks, it will not be rash to conclude that, even at a much later stage of development, the bulk of the loans consisted of long-term commitments.[2]

[1] The figures relate nominally to Central Banks, Central Anti-Malarial Society and Producers' Unions. But deposits in Anti-Malarial Society and Producers' Unions are relatively negligible.

[2] Inquiry held in the Punjab has shown that loans for purchase of cattle and for repayment of old debts absorb roughly about 48 per cent of the loans granted each year.

The following table will show the percentage of repayment to loans outstanding in the case of Central Banks during 1921–24:

TABLE VII

COLLECTIONS OF CENTRAL BANKS, CENTRAL ANTI-MALARIAL SOCIETY AND PRODUCERS' UNIONS

Year	Loans Outstanding at the Beginning of the Year	Repayment of Principal	Percentage, Approximate
1921–22	1,07,93,344	34,71,010	32·1
1922–23	1,11,93,853	48,68,698	43·4
1923–24	1,27,05,434	54,48,676	42·8

The Maclagan Committee drew the attention of the Central Banks to the risk attending such investments and urged that they should distribute their long- and short-term loans so as to ensure that the amounts repaid under each head are slightly in excess of the amounts which fall due. But it appears that this advice was disregarded. Long- and short-term loans have been mixed up in spite of warnings from the Co-operative Department, with the result that it has not always been possible for the Central Banks to scrutinise the use to which a loan has been put. Instalments have been fixed with reference to the borrowings for long-term purposes even when the cultivators have applied for loans for such divergent purposes as cultivation expenses and the purchase of lands. In such cases even the loans for current expenses have not been repaid. Owing to this mixing-up of long- and short-term loans, the financing institutions have become the unconscious instruments of adding to the indebtedness of the members of credit societies.

It is, however, erroneous to throw the entire blame on the Central Banks for the impasse that has been brought about. For in quarters from which guidance

was expected there was a lack of clear appreciation regarding the nature and scope of the true functions of co-operative credit. Ever since 1915 the recommendations of the Maclagan Committee have guided the operations of co-operative banks in this country. But one looks in vain into that report for an emphasis on the differentiation in functions of the agencies catering to the needs of ryots for short, intermediate and long-term credits.[1] Is it the main objective of credit societies to afford finance for cultivation expenses alone, or are such institutions entitled to go beyond the limited purpose thus indicated, and tackle the whole problem of indebtedness? The prevailing view has been that it is useless to afford relief in a partial and hesitating manner. It was held that a co-operative credit system which covered only a small portion of cultivators' needs and left the rest to be met by the local moneylender was not likely to prove successful. The Bengal Banking Inquiry Committee definitely laid down that rural societies should grant loans for long periods. They remarked:[2]

> "In many cases big loans are taken for redemption of old debts, acquiring lands or making improvements. These loans should be given for long term because they cannot possibly be repaid within three or four years, for which rural societies ordinarily grant loans. In such cases, however, the loans are perfectly safe and the overdues should cause no concern."

Thus it appears that one of the principal causes of the low percentage of collections to outstanding loans is to be attributed to this vicious mixture of functions

[1] *Report of the Maclagan Committee*, p. 68.

[2] *Report of the Bengal Banking Inquiry Committee*, p. 152, para. 272.

that has been going on. This unsound policy was, however, reversed in 1937. The report issued by the Agricultural Credit Department of the Indian Reserve Bank laid down that credit societies should impose upon themselves a definite restriction as regards the nature of business which they undertake. They remarked:

> "We . . . suggest that advances for any purposes whatever, which cannot reasonably be expected to be repaid in one year, should be ruled out as beyond the sphere of co-operative societies, at least at the present stage of their development."

Acting in accordance with this recommendation, the Central Banks resolved in 1937 that they should confine their business to the advancing of short-term loans only.

The loans granted by Central Banks to primary societies and other Central Banks during 1924–35 and the average loan taken by a primary society are indicated below:

TABLE VIII

Year	Loans to Banks and Societies, Approximate, Rs. (Lakhs)	Average Loan per Primary Society, Rs.
1924–25	111	1,139
1925–26	241	1,172
1928–29	198	1,166
1929–30	234	1,227
1934–35	53	269

The maximum figure as regards the total loan as well as with regard to the average per primary society was reached in 1925–26. In the years that followed there was a steady diminution, until in 1934–35 the average loan granted to a primary society stood at Rs. 269, the lowest figure for the period under survey.[1] It is thus evident that, if loans granted be taken as an

[1] *Report of the Agricultural Credit Department*, p. 22.

index of the activity of Central Banks, for all practical purposes the co-operative machinery ceased to function.

The rate at which Central Banks lend to primary societies is, of course, dependent on their deposit rates. The deposit rates now vary from 2 to a little over 8 per cent, depending on the length of the time for which the deposits are received, and also on local conditions such as accessibility to the money market. The usual rate of lending varies from 9 to 12 per cent. At first sight it might appear that the margin between the Central Banks' borrowing and lending rates is far too high. In actual practice, however, most Central Banks grant a rebate to primary societies on compliance with certain stipulated conditions. If, for instance, twelve months' current interest and an instalment of the principal is paid, a rebate of 3⅛ per cent is granted. If the usual lending rate is 9⅜ per cent, the grant of this rebate reduces the effective rate of interest charged to 6¼ per cent per annum.

Circulars issued by the Co-operative Department direct that all primary societies should deposit their statutory reserve fund with the Central Banks to which they are affiliated as soon as such a fund reaches Rs. 50. A question has been raised whether primary societies should be entitled to some concession in the rate of interest charged in respect of their borrowings to the extent that their reserve fund is placed in deposit account with Central Banks. Obviously, if Central Banks use this deposit as part of their working capital, there is no reason why the borrowing primary societies should be penalised for using what is virtually their " owned capital ". The situation, however, is not so simple. For it appears that all Central Banks do not use the reserve fund of primary societies as working capital. Such funds of affiliated societies are sometimes

kept intact by Central Banks in the form of investments in Government securities. In such a case it is difficult to sustain the claim of primary societies to concession in interest rates in respect of their borrowings.

Fluid Resources

The nature of the investments made by Central Banks has an intimate bearing on the fluid resources maintained against outstanding liabilities. A prudent banker is expected to arrange his investments in regard to time in such a manner that they synchronise with the period for which deposits are attracted. But it is not always possible to maintain this time parity even in the best-regulated banks. Thus arises the necessity for fluid resources to meet the demands of depositors.

The table given below will illustrate the nature of the problem with which Central Banks are faced :

TABLE IX

PRINCIPAL ITEMS OF RECEIPTS AND DISBURSEMENTS OF CENTRAL BANKS

(In Lakhs of Rupees)

Year	Receipts by Loans and Deposits from			Loans and Deposits repaid to—			Loans and Deposits recovered from—		Loans to Provincial and Central Banks	Loans to Societies
	Individuals	Provincial Bank	Societies	Individuals	Provincial Bank	Societies	Provincial Bank	Societies		
1925–26	110	38	5	85	27	5	67	137	69	172
1926–27	111	63	6	94	35	5	47	105	46	156
1927–28	151	60	5	127	46	5	44	89	48	129
1928–29	160	86	7	129	84	6	58	107	66	131
1929–30	179	73	8	149	54	8	91	94	94	140
1930–31	152	22	5	135	13	5	44	46	40	62
1931–32	129	6	4	124	11	4	33	54	30	50
1932–33	143	6	5	132	6	4	47	28	54	23
1933–34	159	10	4	160	9	4	55	32	53	26
1934–35	177	4	5	183	5	4	37	25	33	20

It may be accepted as one of the rules which co-operative banks are expected to observe that fresh loans should always be granted from new deposits

attracted. Similarly there should exist as far as possible a parity between deposits repaid and loans recovered in any given period of time. This rule, however, is not always observed, as the table given above will show. In 1925–26, *e.g.* deposits amounted to Rs. 154 lakhs, while loans exceeded this figure by a big margin. In the post-depression years deposits repaid far exceeded the loans recovered. Thus arises the need for fluid resources.

As early as 1915 the Maclagan Committee laid down for the guidance of Central Banks the standard to be

TABLE X

FLUID RESOURCES OF CENTRAL BANKS

(Rs. in Thous.)

Year	Total	Cash in Hand and Bank	Government Paper	P.O. Savings Bank	Undrawn Balance of Cash Credit	Other Investments of a Fluid Nature	In Current and Short-time Deposits with the Provincial Bank
1922–23	20,73	3,40	3,83	3,36	1,63	1,05	7,46
1923–24	22,16	3,31	4,48	2,82	1,87	1,43	8,25
1924–25	30,42	4,51	5,94	2,50	2,44	1,83	13,20
1925–26	38,42	5,59	6,70	3,37	3,13	2,48	17,15
1926–27	31,34	6,56	8,62	2,28	2,30	2,55	9,03
1927–28	34,35	11,34	8,21	3,11	2,68	1,87	7,14
1928–28	47,77	10,67	7,94	4,65	8,69	3,36	12,45
1929–30	47,76	10,51	8,16	3,39	11,13	1,86	12,51
1930–31	40,63	8,72	5,35	3,58	4,50	2,76	15,72
1931–32	45,77	6,08	8,68	4,04	2,74	1,76	22,47
1932–33	55,75	4,67	7,68	4,69	1,72	1,44	35,55
1933–34	55,78	5,60	7,49	5,27	1,26	2,12	34,04
1934–35	42,95	4,60	7,96	4,80	92	2,14	22,53

maintained in regard to fluid resources. They urged that the whole amount held in the current account should be covered by fluid resources, but with regard to saving deposits 75 per cent of the amount held need be covered. The present standard in Bengal is much below that laid down by the Maclagan Committee. The rules framed by the Registrar prescribe that at least 50 per cent of current deposits and 25 per cent of

savings deposits should be kept in readily realisable form. For deposits for six months or less the standard of fluid resources is 33⅓ per cent.

These standards were fixed for Bengal as early as 1927. The Central Banks are expected to send monthly returns to the Registrar regarding the state of their liquid reserves and the officer in charge of running audit is expected to check these figures.

Table X above will show the composition of fluid resources in Bengal from 1922–23 to 1934–35.

The table given below and the graph (p. 92) will show the percentage [1] of fluid reserves of Central Banks against current and savings deposits and deposits maturing within twelve months :

TABLE XI

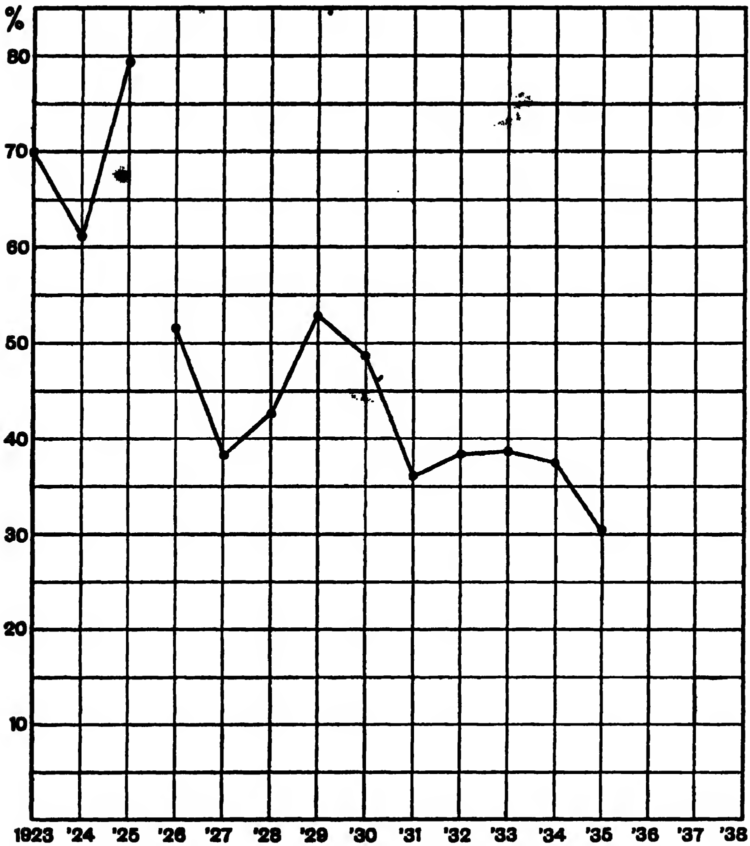
PERCENTAGE OF FLUID RESERVES OF CENTRAL BANKS IN RELATION TO CURRENT AND SAVINGS DEPOSITS AND THOSE MATURING WITHIN TWELVE MONTHS

(1) Co-operative Year ending June 30 of—	(2) Current and Savings Deposits maturing within Twelve Months, Rs. (Lakhs)	(3) Fluid Resources as per Table X, Rs. (Lakhs)	(4) Percentage of Fluid Resources
1923*	29·92	20·73	69·3
1924*	36·22	22·16	61·2
1925*	38·20	30·42	79·6
1926	74·13	38·42	51·8
1927	81·02	31·24	38·7
1928	81·04	34·35	42·4
1929	90·28	47·77	52·9
1930	97·54	47·76	48·9
1931	112·32	40·63	36·2
1932	118·46	45·77	38·6
1933	143·19	55·75	38·9
1934	147·42	55·78	37·8
1935	141·59	42·95	30·3

* Figures relating to savings and current deposits are not available.

[1] The annual reports lump together the figures relating to deposits in Central Banks, Anti-Malarial Society and Producers' Unions. It is not possible to separate the deposits of Central Banks from the figures relating to other societies. But as deposits in Producers' Unions form a negligible amount, the calculation made here may be taken as fairly accurate.

Leaving out the years 1923, 1924 and 1925, for which complete figures are not available, we find that the Central Banks maintained roughly 52 per cent as cover against their short-term commitments in 1926.



This high standard was reached once again in 1929. In subsequent years the position steadily deteriorated and the figure for 1935 was the lowest during the period under survey.

In prescribing the standard of fluid resources it must be remembered that the greater the proportion of fluid resources to working capital the higher the cost.

This cost has to be paid either by the borrowers in the shape of high interest rates or by the shareholders in low dividends earned by them. Thus in the case of Central Banks of which the shares are held mainly by the primary societies, it is the latter who have to pay for the fluid resources, whether as borrowers or as shareholders. But all considerations of cost must necessarily play a subordinate rôle when the safety of the movement is endangered.

Reserve Fund, Reserve and Reserve Account

In the lay mind there is a tendency to confuse a reserve with a reserve fund. Their functions, however, are quite distinct. The problem of Reserve is the same as that of maintaining adequate fluid resources to enable a bank to meet its liabilities arising out of deposits. A reserve may or may not be built out of profits, while a reserve fund is always built out of the surplus of assets over liabilities. Even after the lapse of more than three decades of the working of co-operative credit societies, there exist today acute differences of opinion regarding the nature and functions of a reserve fund. Is it permissible to use this fund for providing fluid resource ? Can this fund be utilised for writing off bad debts ? Is it open to a Central Bank to use its reserve fund for meeting demands of creditors ? These are some of the questions which have been asked.

Rules framed under the Indian Co-operative Societies Act lay down that in all co-operative societies of which the liability is limited by shares, not less than one-fourth of the net profits shall be annually carried to a reserve fund.[1] In addition to this minimum, sundry other items are also credited to this fund.

[1] Rules under section 43 of the Co-operative Societies Act, 1912.

Admission fees after deduction of the preliminary expenses incurred in constituting a Central Bank, the value of all forfeited shares, lapsed dividends and fines also go to the reserve fund.[1]

Let us now ask ourselves the fundamental question: What are the uses to which this reserve fund can be put? Speaking generally, two alternatives at once suggest themselves. The profits of a Central Bank which are set apart may be used by a bank either in its own business, or they may be separately invested. In so far as the first alternative is adopted, a bank may use the profits for providing the necessary liquid assets against the demands of its depositors. In such a case, the profits cease to be a *reserve fund*, but become what is technically known in banking parlance as a *reserve*. It is true that this reserve or fluid resource is generally provided out of share capital or deposits. But there is nothing to prevent the use by a bank of a portion of its surplus assets in this manner, particularly if the share capital and deposits are insufficient to provide the necessary liquid cover.

It is also open to a Central Bank to use its profits in its own business to supplement the working capital obtained from other sources, *e.g.* shares, loans and deposits. If the assets are thus utilised they cease to be a reserve fund and become a *reserve account*. One of the principal arguments advanced in favour of this policy is that from the financial point of view the bank is likely to be a gainer. The rate of interest which it is likely to earn by lending out its profits to the constituent societies is generally much higher than that which it is likely to obtain by investing the reserve fund, say, in Government securities or even in the Provincial Co-operative Bank. One of the objects which the Maclagan

[1] See by-law 72 of Central Co-operative Banks (mixed type).

Committee on Co-operation had in view was the increase of "owned" capital. That end can be achieved more effectively and quickly if the profits are used as working capital than if they are separately invested. The Committee therefore recommended [1] that, subject to provision being made for the maintenance of fluid resource, primary societies and Central Banks should use their reserve funds in their own business. The matter was also debated at length in 1918 at a Conference of Registrars of Co-operative Societies. This conference passed the following resolution : [2]

> "That while recognising the ultimate advantages of creating a separate reserve fund invested outside the movement, the Conference consider that at the present stage of development, it may in many cases be desirable to prefer to this object the creation of capital owned by co-operative institutions for utilisation in their business. Subject to provision being made for the maintenance of a safe standard of cash reserve or fluid resources, they consider that there is no objection to the employment of the surplus assets or undistributed profits of co-operative institutions in their own business."

Apart from using the undistributed profits in their own business, Central Banks may set apart such profits and invest them in gilt-edged securities to constitute the nucleus of a fund which will grow as the volume of business increases. The object of this fund is to provide for some possible or estimated loss on the realisation of certain assets or in respect of pending assets.[3] It is

[1] Recommendations Nos. 88 and 151.

[2] Resolution No. 15, *Report of the Eighth Conference of Registrars*, 1918, p. 50.

[3] Calvert, *Law and Principles of Co-operation*, 1933, p. 249.

only when profits are thus utilised that they constitute a reserve fund strictly so called. It is this view which usually appeals to the layman who deposits his money with Central Banks. The man-in-the-street views with great suspicion the use of the reserve fund as working capital. It is no use telling him that "owned capital" should be increased or that fluid resources are necessary. A reserve fund, according to him, is an inviolable fund built out of profits, invested *outside the movement*, to be used only in times of grave emergency.

In the light of these considerations let us now proceed to inquire into the manner in which the reserve funds of Central Banks in Bengal have been actually utilised. The by-laws framed by the Department lay down with sufficient clearness the various uses of this fund. In the first place, the fund may be used to cover any loss arising from unforeseen circumstances and to meet any call on the bank which cannot be met otherwise. In the second place, the reserve fund serves as a security for any loans which the bank may have to contract. If the funds are drawn upon to meet unforeseen losses, the rules contemplate that sums thus drawn upon should be reimbursed from the next accruing profits. It will appear from these rules that the framers had clearly in view an inviolable fund which should be utilised only in exceptional circumstances.

The Co-operative Societies Act, 1912, permits a registered society to invest all its funds, including the reserve fund, in gilt-edged securities or in other securities approved by the Registrar. The departmental rules framed by the Registrar in Bengal require that all Central Banks, as soon as their reserve funds reach Rs. 250, should deposit such funds in the Provincial Co-operative Bank in preference to securities specifically mentioned in the Act. Societies of long

standing which have proved their credit are, however, permitted to use their reserve fund as working capital.

Reserve funds deposited with the Provincial Bank may be withdrawn at any time with the permission of the Registrar. It is pointed out in the circular issued by the Department that the concentration of the reserve fund in the Provincial Bank is likely to strengthen the movement, as it will facilitate the mobilisation of such resources. It will have the further advantage that the reserve fund will be invested in a readily realisable form. As the circular points out:

> "Too much stress . . . cannot be laid on the need for an adequate cash reserve for every co-operative bank, as without such a reserve their financial position will always be open to criticism by business men."

The conception of a reserve fund as embodied here is somewhat different from that envisaged in the by-laws. The main function emphasised in the Registrar's circular is that of providing liquid cover against deposits. The idea of a reserve fund inviolable and indivisible set apart for the specific purpose of meeting unforeseen losses recedes into the background, while the necessity of liquid reserve as a means of popularising Central Banks is given a prominent place.

It is, however, strange to find that, notwithstanding circulars and instructions, the reserve fund has actually been used as working capital by a large number of Central Banks. It was only with the advent of the depression of 1929 that attention was drawn to the risk involved in such a practice and the necessity of separating the reserve fund from working capital was realised.[1] Thus we have the by-laws contemplating

[1] *Report on the Working of Co-operative Societies, Bengal*, 1931–32.

the establishment of a separate inviolable *reserve fund*, the departmental circular emphasising the need for a *reserve* as a means of securing liquid assets, while the banks themselves use the undistributed profits as *reserve account*.

This anomaly should be done away with. It is essential that the reserve funds of Central Banks should be taken out of working capital and invested separately outside the movement. While it is desirable that the owned capital should increase, it is of greater importance to secure the confidence of the public. Safety should in no circumstances be sacrificed for the sake of profit. Looked at from this point of view, it may be seriously questioned whether the present policy of depositing the whole of the reserve fund of Central Banks in the Provincial Co-operative Bank is a sound one.

The Provincial Bank uses this deposit as a part of its working capital. And it makes no difference to the co-operative movement as a whole whether these undistributed profits are used directly by Central Banks as working capital or indirectly *via* the channel of the Provincial Bank. Any danger which threatens the Provincial Bank is likely to involve the Central Banks also in one common ruin. That this risk is not a fanciful one will appear from the disaster that overtook the Burma Provincial Co-operative Bank.[1] It may also be recalled in this connection that when the C.P. Provincial Co-operative Bank came to grief in 1920, the whole co-operative structure was on the point of collapse. Due mainly to the over-financing of Central Banks and primary societies, the Provincial Bank was living a hand-to-mouth existence during the first half of the year 1920. In September, 1920, the Provincial Bank

[1] *Report of the Calvert Committee on Co-operation*, pp. 73-6.

refused to allow further drawings by certain Central Banks[1] upon cash credits granted to them not only for the finance of primary societies but even as a fluid resource or cover for deposits. When the task of reconstruction was taken in hand, one of the resolutions passed by the representatives of the Provincial Bank and Central Banks was that the reserve fund should be deposited with the Government. Even in our own province it must be remembered that the Government of Bengal had to come to the rescue of the Provincial Bank in 1936.

If it is not possible to invest the whole of the reserve fund outside the movement, at least a portion, say 50 per cent, should be invested in gilt-edged securities. The Committee on Co-operation in Burma, presided over by Mr. Calvert, suggested that the *whole* of the reserve fund should be invested in Government securities.[2] The Bihar and Orissa Committee on Co-operation was more generous to the Central Banks. The Committee recommended that 50 per cent of the reserve fund should be utilised as working capital by Central Banks. But even this Committee recognised the necessity[3] of investing a portion of the profits outside the movement in gilt-edged securities, first-class debentures, or fixed deposits in an approved bank unconnected with the co-operative movement. The Townsend Committee on Co-operation, Madras, unanimously recommended that Central Banks should be encouraged to invest their reserve fund in redeemable Government securities.[4] The practice prevailing in Bengal should therefore be revised in the light of these recommendations.

[1] *Report of the King Committee on Co-operation, C.P.*, 1922, p. 4.
[2] *Report of the Committee on Co-operation, Burma*, pp. 62-3.
[3] *Report of the Committee on Co-operation, Bihar and Orissa*, p. 75.
[4] *Report of the Committee on Co-operation, Madras*, 1927–28, p. 81.

Central Banks and the Depression

The depression of 1929 brought into sharp relief many of the defects of policy and administration to which reference has been made in the previous pages. We have seen that, in spite of warnings, the banks had invested their short-term deposits in granting long-term loans. The fall in the price of the staple crops of the province brought about a serious shrinkage in the repaying capacity of the agriculturist and an increase in the burden of contractual obligations. In the circumstances the bulk of the working capital of Central Banks became unrealisable. The statutory reserves which should have been invested separately outside the co-operative movement, but which were for the most part actually used in banks' business, shared the fate of the rest of the working capital.

Loans had been readily granted without proper inquiry, relying on the security of unlimited liability. Capital asset rather than repaying capacity was the usual basis for the grant of credit. Even these assets were not properly estimated. On more than one occasion [1] the Co-operative Department had emphasised the necessity of maintaining up-to-date Property and Debt Registers. But it was not found possible to enforce the circulars. The assessment of normal credit on which the whole superstructure of co-operative credit rests was nowhere made with any degree of accuracy, owing mainly to the inadequacy of the staff. The movement had thus been enfeebled by a disregard of the most essential rules of prudent business administration during a number of years. The steady increase in the number of societies, members and

[1] Circular No. 5 of 1914; Circular 8 of 1923.

working capital gave altogether a misleading idea of the innate strength of the movement. Precisely at a time when the co-operative societies were least able to withstand any attack, they were exposed to the full blast of the world-wide economic depression of 1929.

The repercussions of this depression will be evident from the following table giving the index numbers of the price of jute and of Calcutta wholesale prices during 1925–35:

TABLE XII

INDEX NUMBERS

(Price in July 1914 = 100)

Year	Raw Jute	Calcutta Index No. of Wholesale Prices
1925	154	159
1926	120	148
1927	93	148
1928	100	145
1929	95	141
1930	63	116
1931	49	96
1932	45	91
1933	41	87
1934	39	89
1935	50	91
1936	50	91

It is interesting to compare the fall of prices in India with that in other countries. Table XIII (p. 102), compiled by the Economic and Financial Section of the League of Nations, indicates the wholesale price index of several countries during 1929–33.

It will be evident from this table that, barring countries like the Dutch East Indies and the Netherlands, the extent of the fall of prices was the greatest in

TABLE XIII

WHOLESALE PRICE INDEX

(Base 1913 or 1914 = 100)

Country	Peak in 1929	Date of the Lowest Point	Percentage Decline from Peak to the Lowest Point
India	149·0	March 1933	44·3
Argentine	129·8	" "	12·9
Australia	170·8	February 1933	28·5
Great Britain . . .	140·3	March 1933	30·4
France	660·0	" "	40·9
Germany	139·6	January 1933	34·8
U.S.A.	138·2	February 1933	38·0
Dutch East Indies . .	150·0	March 1933	48·7
Netherlands	147·0	" "	51·0

India during 1929–33. The following table gives an approximate idea of the total sum received by the Bengal growers of jute during the years 1915–34. It will be seen from this table that the peak year was 1925,

TABLE XIV *

Year	Crores of Rupees	Year	Crores of Rupees
1915	27	1925	84
1916	34	1926	55
1917	22	1927	51
1918	29	1928	50
1919	44	1929	45
1920	27	1930	24
1921	27	1931	12
1922	29	1932	10
1923	31	1933	14
1924	55	1934	15

* The figures for 1915–30 are compiled from the Census Report, 1931, while those for 1930–34 are estimated from the data given in *Agricultural Statistics of British India*, vol. i.

when the ryots' estimated receipts amounted to Rs. 84 crores and that the fall of the gross income during 1926–34 was sudden and precipitous.

Overdues

The Central Banks were hard hit in a number of ways by this abnormally heavy shrinkage of income. There was a steady deterioration in their position so far as realisations of outstanding loans were concerned. The table given below and the graph (p. 104) will show the percentage of collection of Central Banks in relation to their outstanding loans :

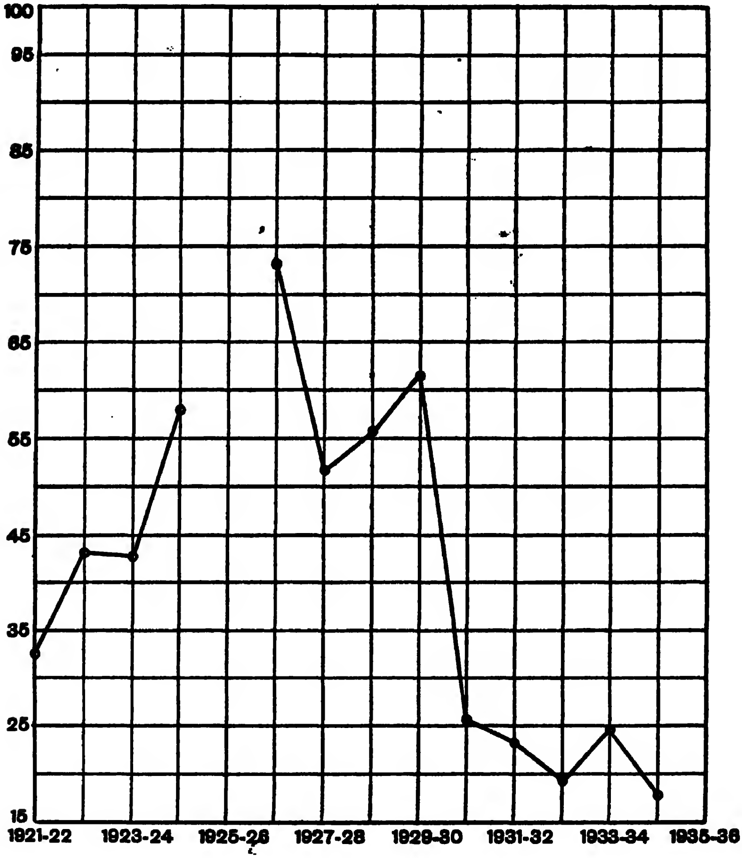
TABLE XV

TABLE SHOWING COLLECTION OF CENTRAL BANKS, ANTI-MALARIAL SOCIETY AND PRODUCERS' UNIONS DURING 1922–36

Year ending June 30	Loans at the Beginning of the Year, Rs. (Lakhs)	Repayment of Principal, Rs. (Lakhs)	Percentage	Repayment of Interest, Rs. (Lakhs)
1922	1,08	35	32·1	11
1923	1,12	49	43·4	11
1924	1,27	54	42·8	14
1925	1,52	88	58·2	17
1926	1,77	209	117·8	18
1927	2,16	159	73·4	23
1928	2,68	140	51·9	27
1929	3,11	174	55·7	33
1930	3,39	208	61·3	31
1931	3,89	100	25·8	24
1932	4,12	95	23·04	37
1933	4,20	82	19·59	31
1934	3,99	96	23·97	33
1935	3,91	68	17·3	29
1936	3,79	108	28·5	28

It will be noticed that the table given above includes the figures relating to the Anti-Malarial Society and Producers' Unions. But as their financial transactions are of minor importance, both absolutely as well as relatively, the table may be taken as giving a fairly accurate picture of the position of Central Banks. The year ending June 30, 1926, may be taken as the peak

year of the collections of Central Banks. Owing to the abnormally high prices of jute, the producers found it practicable not only to pay off the outstanding loans

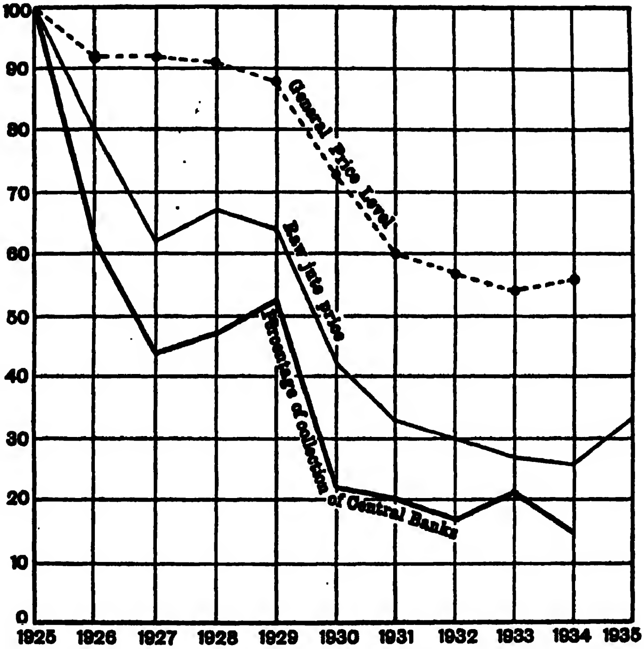


but also a portion of the current year's dues. Since that year, broadly speaking, there has been a steady decline in the percentage of collections.

In the graph given opposite an attempt has been made to show the close parallelism between the price of raw jute and the percentage of collection.

The year 1925 has been taken as the base year in

this graph with regard to the percentage of collections. So far as the raw jute and general price levels are concerned, they have been shown in the form of percentages below the corresponding level for 1925, which has been taken to be 100. The figures relating to the percentage of collections relate to the years ending June 30, while in other cases the calendar year has been



taken. Thus the year 1930 on the graph means for general price level and raw jute price the period of twelve months ending December 31, 1930. But for percentage of collections the period referred to is twelve months beginning July 1, 1930, and ending with June 30, 1931.

The deterioration in the collections of Central Banks also adversely affected their position with regard to the fluid resources and their budgetary equilibrium. The percentage of liquid reserve against short-term liabilities

was fairly high in 1929. But in 1931 it stood at only 36·2 as against 52·9 in 1929. There was a further deterioration in 1934–35 when the Banks maintained only 30 per cent of their short-term obligations in fluid resources, a position which cannot by any means be regarded as sound. The table given below will indicate the position of Central Banks with regard to their income and expenses:

TABLE XVI

INCOME AND EXPENSES OF CENTRAL BANKS

(Income [mainly]=Interest Received, and Expenses [mainly]= Interest and Dividend Paid and Cost of Management)

Year	Income	Expenses
1925–26	19,38,968	17,61,873
1926–27	23,45,218	21,22,017
1927–28	28,68,618	24,62,420
1928–29	34,13,213	29,47,800
1929–30	32,57,869	33,03,480
1930–31	25,17,857	34,34,143
1931–32	37,84,605	36,12,477
1932–33	32,17,509	34,39,171
1933–34	33,58,001	34,47,151
1934–35	29,75,198	30,61,886
1935–36	29,52,316	31,31,106

The chief item included in income is interest received from investment, while expenditure includes such items as interest paid on loans and deposits, costs of management and dividend to shareholders. It will appear from this table that, since the onset of the depression in 1929, expenditure has exceeded income in most of the years by a substantial margin.

Remedial Measures

To meet the situation the payment of dividend and bonus was suspended by most of the Central Banks. In 1934–35 out of a total number of 119 Central Banks

only 26 were in a position to declare a dividend. It is worth noticing in this connection that the practice which the Central Banks have followed in the matter of declaration of dividend has not always been of a character calculated to inspire public confidence. A rule framed under the Co-operative Societies Act[1] requires that no dividend should be paid without the sanction of the Registrar, if the auditor reports that any asset is irrecoverable. But it appears that it has not always been found practicable to enforce this rule. Central Banks have often taken it upon themselves to distribute dividends based on assets which subsequent circumstances have shown to be unrealisable. In a balance-sheet overdue interest, for instance, is always treated as an asset. But the value of these assets is a matter of opinion. Such assets should not as a rule be taken into account for the declaration of dividend, unless there is manifestly a strong and cogent reason for doing so. But Central Banks have usually taken an optimistic view of such assets and have utilised them for the purpose of declaring dividends without making adequate provision for bad and doubtful debts. It required, however, a crisis of the first magnitude to make the Central Banks realise the dangers inherent in this policy. In 1931 it was laid down that the definite objective of a Central Bank should be to make sufficient collection to enable it to restore its fluid resources to the normal standard and to make adequate provision for the payment of establishment charges and interest on borrowed capital.

At the same time a vigorous campaign was initiated for the improvement of collections, particularly in the jute-growing areas. The whole staff of the co-operative department — inspectors and auditors — was pressed

[1] Rule 28 (3) under section 43 of the Co-operative Societies Act, 1912.

into service and called upon to assist the supervisors working under Central Banks. The area under an inspector was divided into audit circles and each circle was placed under an auditor. The scheme contemplated that each audit circle should consist of not more than 100 societies. In addition to his normal duties the auditor is expected to maintain a financial history of the members of affiliated societies, to promote schemes of rural reconstruction, to encourage formation of an advisory body in the circle for improving the working of societies.[1] But the staff was not sufficient to enable the department to carry out the scheme. For even today instances are not altogether unknown of auditors being called upon to deal with as many as 140 societies.

The inspectors were expected to hold a Conference of Supervisors at the beginning of each month. It was contemplated that the work done by the supervisors should be reviewed at the meeting, and instructions issued regarding the work to be done during the month. The auditors also were expected to join in the work of collection. The inspectors were requested to distribute the worst areas between the auditors so that the latter could assist in pushing on collections along with annual audit. The Department also expected the Assistant Registrar to keep a close watch over collections in the area placed under his charge.

Other measures aiming at the financial rehabilitation of the Central Banks soon followed in quick succession during the years 1931–34. Organisation of fresh societies was stopped, and when the prevailing slump brought in an overflow of deposits which were diverted from fruitful employment in other fields, the Central Banks were in a position to bring about a reduction of

[1] Press Note issued by the Government of Bengal on the Co-operative Movement in Bengal for the year ended June 30, 1934.

interest paid on deposits. The average rate on three years' fixed deposit was reduced from about 7½ to 4½ per cent by amicable settlement. The rates on loans granted by Central Banks to societies were correspondingly reduced, thus enabling the societies to pass on the benefit to their members. Instructions were issued to invest the reserve fund separately.

The instalments fixed for repayment were revised so as to bring them well within the repaying capacity of borrowers. Wilful defaulters were called upon to mortgage their property as collateral. The case of defaulters who would be able to pay if suitable extensions were granted was sympathetically considered.

The measures adopted in this province were similar to those which were found useful in other parts of India. In the Madras Presidency,[1] for instance, a special staff was appointed for the purpose of collection of overdues. The Central Banks spent out of their own funds about 5 lakhs of rupees, while the Provincial Bank gave a subsidy of about Rs. 1,89,500. The Bombay Presidency found it necessary to push on with liquidation work which was facilitated by the appointment of special recovery officers in almost all districts. In the Punjab a special officer possessing experience of the working of joint-stock banks in India and abroad was appointed Financial Adviser to the Co-operative Department in 1928. His assistance was found to be helpful during the critical days of the depression.

Debt Conciliation

It is, however, necessary to recognise that, useful as these financial and administrative measures may be in the long run, their action must necessarily be slow.

[1] *Indian Co-operative Review*, July 1936, p. 416.

No immediate tangible benefit is likely to emanate from them. As a matter of fact most of the remedies referred to above have been in operation in this province ever since 1931. But recent figures relating to the collection of Central Banks do not indicate any substantial improvement in the position of the movement as a whole. It has therefore been suggested that co-operative societies should be brought under the operation of the Bengal Agricultural Debtors Act (Act VII of 1936), and that advantage should be taken of its provisions to get rid of, or at any rate reduce, the standing debts of members of rural societies by a substantial amount.

That the heavy load of indebtedness militates against economic recovery is admitted on all hands. India's rural indebtedness was estimated at about Rs. 900 crores in 1929. More recently the Agricultural Credit Department of the Reserve Bank has come to the conclusion that, owing to the fall of prices since 1929, the burden of this debt estimated in terms of commodities must now be at least twice as heavy. The situation therefore calls for a more drastic remedy than is normally possible under the provisions of the Co-operative Societies Act. It has, however, been contended that co-operative societies should not be treated on the same footing as private creditors in regard to debt conciliation. It is urged[1] that private debts increase rapidly owing to the extortionate rates of interest usually charged. Co-operative societies, on the other hand, have been trying their utmost to reduce rates of interest. The ryot should not therefore be allowed to combine the amenities offered by co-operative credit with the benefit of debt conciliation. This argument,

[1] *Proceedings of the Eleventh Conference of Registrars of Co-operative Societies*, 1934, p. 42.

however, overlooks one important consideration. The whole object of debt conciliation is to reduce the total indebtedness of the ryot so as to bring it well within his repaying capacity. In such circumstances to leave out co-operative debts will be to frustrate the very object of debt conciliation. Besides, as the situation now stands, if debts of private creditors are included in a scheme of debt conciliation and those of credit societies are not, the private creditor will get paid and the latter not at all.

The provisions of the Bengal Agricultural Debtors Act (VII of 1936), contemplate action along three different lines, with a view to debt reduction. The first one is debt conciliation strictly so called, which is being attempted by "Ordinary Debt Settlement Boards". Here the object aimed at is to bring together creditors and debtors so as to induce them to arrive at an amicable settlement.[1] If, however, the debt cannot be reduced by mutual agreement, and if the assets are insufficient to enable a debtor to pay his debt within a period of twenty years, the debtor may be declared insolvent[2] by a Special Debt Settlement Board armed with summary powers. The property of the debtor will then be sold under an order of this board and the proceeds utilised in satisfaction of the claims of creditors. The adoption of a simple insolvency procedure along these lines was recommended by the Royal Commission on Agriculture, the Civil Justice Committee and the Central Banking Inquiry Committee. It may also be recalled that the Deccan Agriculturists' Relief Act, 1879, contained a not very dissimilar provision for the relief of the agricultural debtors.

The Bengal Agricultural Debtors Act also provides

[1] Section 15, Bengal Agricultural Debtors Act (VII of 1936).
[2] *Ibid.* section 22.

for a compulsory reduction of debt in certain cases.[1] If, for instance, creditors to whom at least 40 per cent of the debt is owing agree to an amicable debt reduction, a special Debt Settlement Board may pass an order that the whole of the remaining debt should be similarly reduced, even if the creditors be not a consenting party. This rule is subject to the reservation that the principal of a debt shall not be reduced below the original debt, unless creditors owning 60 per cent of the sum advanced agree to such reduction. Special Debt Settlement Boards are also competent to effect a compulsory reduction of debts to such an amount as a ryot can pay in instalments extending over a period of twenty years. Debt reduction, whether voluntary or compulsory as applied to co-operative debts, cannot take place without the previous consent of the Registrar of Co-operative Societies or his deputy.[1]

The scheme of debt reduction as thus contemplated will no doubt offer certain advantages to Central Banks. Thus if awards are made by Debt Settlement Boards, the Central Banks will for a time be spared the trouble and expense which they now undergo for making their collections. For this work will then be performed on their behalf by the Debt Settlement Boards. At the same time it is necessary to point out that the Bengal Agricultural Debtors Act raises certain important issues which should be faced before embarking upon debt reduction. Recent events have shown that the Government of Bengal consider it their duty, in the interest of the depositors and of the co-operative movement as a whole, to afford financial assistance to the Bengal Provincial Co-operative Bank in times of crisis. The subsidy offered by the Bengal Government to enable

[1] Section 19, clause (c), Bengal Agricultural Debtors Act (VII of 1936).
[2] *Ibid.* section 31.

the Provincial Co-operative Bank to wipe out its losses incurred in connection with the financing of jute sale societies has very naturally given rise to the belief that the Government are behind the co-operative movement, ready to offer the Provincial Bank financial support in times of emergency. If the provisions of the Agricultural Debtors Act are applied to co-operative debts, the Government may have to come to the rescue of the Provincial Bank once more. It may be recalled in this connection that the Central Banks of the pure type rely for their working capital mostly on the Provincial Bank. Any scheme of compulsory debt reduction is thus likely to have serious repercussions not only on such Central Banks but also on the Provincial Bank. It should therefore be made quite clear that the Government are ready to offer co-operative banks such financial support as may be needed in carrying out the scheme of debt reduction.[1]

The position also requires to be made quite clear in regard to the powers which the Registrar possesses of cancelling the registration of a society. Under the Co-operative Societies Act a Registrar is morally bound to cancel the registration of a primary society that is unable to pay its debts to a Central Bank.[2] If the registration of such a society is cancelled, its affairs are then put in the hands of liquidators. But liquidation proceedings might call into play the principle of unlimited liability, on which primary credit societies are based. In such circumstances the awards made against individual debtors under the Bengal Agricultural

[1] Cp. Khan Bahadur A. M. Arshad Ali, Registrar, Co-operative Societies, Bengal: "If the compulsory method is adopted, I should like the co-operative societies to be exempted from the operation of the Act, because compulsory conciliation might adversely affect the co-operative societies" (*Proceedings of the Eleventh Conference of Registrars*, 1934, p. 44).

[2] Calvert, *Law and Principles of Co-operation*, p. 167.

Debtors Act might be nullified by liquidation proceedings initiated at the instance of a Central Bank against the members of a defaulting primary credit society. conflict might then arise between the Bengal Agricultural Debtors Act and the Co-operative Societies Act. No provision exists by which this conflict can be avoided.

CHAPTER IV

PROVINCIAL CO-OPERATIVE BANK

The Need for a Provincial Bank

We have seen that, ever since the introduction of the co-operative movement in the province, forces had been in operation which tended to bring about the unification of credit societies into larger groups for the purpose of getting access to the money market. The culmination of this process was reached in 1918 with the inauguration of the Bengal Provincial Co-operative Bank as the apex bank of the province. Many Central Banks found themselves confronted at times with shortage of capital, while other institutions had surplus funds with regard to which they experienced considerable difficulty in finding suitable investment. In this province there is usually an interval of several months between the early paddy crop and the late jute crop. Thus it not infrequently happens that, while some Central Banks in Western Bengal are burdened with a plethora of idle funds, other institutions in Eastern Bengal experience a scarcity of capital. But interlending between these Central Banks on a large scale is hardly a practical proposition, for it is likely to give rise to interlocking of liabilities of an undesirable kind. The only way out of the difficulty is the creation of a central institution such as a Provincial Bank which will act as a clearing-house for capital, pool the resources and canalise the surplus of one locality to

meet the deficiency of another to the advantage of the province as a whole.

Apart from the necessity of correcting this maladjustment, there was also the need for equating the demand for and supply of capital over a given period of time. It is possible that the same Central Bank might find itself confronted with an excess of funds during certain seasons of the year while at other times it might be unable to meet the ordinary requirements of its affiliated societies. A difficulty of this kind could only be removed by a wider centralisation and federation of the Central Banks into a provincial organisation for the purpose of balancing this seasonal excess and deficiency of funds, thus making the affiliated Central Banks independent of fluctuations in the local supply of capital. It often happened that precisely at a time when Central Banks had to meet a run upon their funds from depositors they were called upon also by the affiliated village societies to supply the latter with increased capital. In such circumstances Central Banks often took recourse to joint-stock commercial banks for accommodation. But this process was needlessly expensive. For even the best of Central Banks could only rely on their own unaided credit for the necessary accommodation, with the result that they had to pay a high price for the assistance granted by the joint-stock banks. The remedy lay in the formation of a central organisation prepared always to take off the idle money in the slack season and supply the affiliated societies with fluid resources during the busy season.

The scheme for the establishment of a provincial credit organisation received the approval of the Government of Bengal as early as 1914 and a Committee was appointed to consider the draft by-laws

prepared by the Registrar.[1] The scheme as approved by the Committee contemplated that the Provincial Bank would consist of individuals as well as Central Banks as shareholders. Individuals were to rank as preference shareholders and were entitled to have a prior claim on dividends after 25 per cent had been set aside for the reserve fund in accordance with the provisions of the Co-operative Societies Act. The Central Banks were to rank as ordinary shareholders. The preference shareholders were entitled to a dividend up to 6 per cent. Thereafter, the ordinary shareholders were to receive a dividend up to the same amount. If, however, profits were sufficiently large, both the preference and ordinary shareholders could receive dividends up to 7½ per cent. The bank could accept deposits and issue debentures up to a maximum of ten times its subscribed capital.

But it was not found practicable to give effect to this scheme immediately owing to the dislocation in business brought about by the World War. The time was hardly opportune for the inauguration of the bank. Besides, the scarcity of funds about which the Central Banks had complained during the early years of their existence had temporarily disappeared. There remained the question of employing idle funds during slack seasons. It was no doubt possible to start a Provincial Bank on a small scale to meet this difficulty. But a small Provincial Bank could hardly face the competition of well-established joint-stock banks of Calcutta in regard to profitable investment of idle funds. The situation had also altered, due to the publication of the *Report of the Maclagan Committee on*

[1] The Committee consisted of the following members: Sir Daniel Hamilton, Mr. L. G. Dunbar, Sir R. N. Mukherjee, Mr. W. R. Gourlay, the Honourable Raja Risheekesh Law, Mr. W. Kirkpatrick, Mr. P. L. Ray and the Honourable Mr. Fazlul Huq.

Co-operation in 1915. The Committee had advised the Central Banks to build up their fluid resources and it was thought inexpedient to embarrass the Central Banks by superimposing on them a higher organisation just when they were trying to carry out the recommendations of the Committee.[1]

But the establishment of the Provincial Bank could not be postponed for long. For the requirements of Central Banks very soon showed signs of outgrowing the local sources of supply. During 1914–15 the Central Banks needed only Rs. 8,000 of external loan as against a total working capital of Rs. 40,88,613. In 1915–16 the external capital was Rs. 24,600 and the total working capital Rs. 46,49,377. The very next year the external capital rose to Rs. 1,06,749 as against a total supply of Rs. 53,89,950. The proportion was much higher in 1917–18. Decidedly the Central Banks once more stood in need of access to the larger money market, and the Bengal Provincial Co-operative Bank was inaugurated early in 1918. The bank was, however, organised as a federation of Central Banks without any individual members as shareholders. In this respect there was, therefore, a material departure from the original proposals.

A Brief Historical Survey

Within two months of its operation the Bengal Provincial Co-operative Federation (or the Bengal Provincial Co-operative Bank as it came to be called four years later) had 31 societies as members, of which 28 were Central Banks. Next year the membership rose to 49 Central Banks and 8 other societies. The

[1] *Report on the Working of Co-operative Societies, Bengal,* for the year ending June 30, 1916.

subsequent progress of the bank will appear from the following table showing the number of affiliated societies and working capital from year to year, and also the rate of interest on loans and deposits:

TABLE I

PROVINCIAL BANK

Year	No. of Member Societies	Reserve Funds,* Rs.	Working Capital,† Rs.	Profit and Loss, Rs.	Rate of % Interest	
					Loans	Deposits
1917–18	31	..	14,77,995	+3,522	6½ to 7	7½
1918–19	57	..	19,63,069	+17,511	,,	,,
1919–20	69	6,643	19,58,550	+30,580	5¼ to 6	6 to 7½
1920–21	72	12,642	20,41,045	+36,830	4½ to 7	6½ to 7½
1921–22	77	37,167	25,41,391	+44,460	,,	7½
1922–23	89	66,238	34,73,386	+40,194	3 to 6	7½
1923–24	109	1,03,608	36,77,559	+41,526	3 to 7	7½
1924–25	122	1,13,293	61,20,085	+69,646	3 to 6½	7½
1925–26	136	1,44,109	75,30,530	+1,45,645	3 to 6¼	7 to 7½
1926–27	149	2,17,407	1,18,24,793	+1,22,530	3½ to 7	,,
1927–28	159	3,61,780	1,71,90,645	+1,67,865	6½	7½
1928–29	163	3,63,098	1,85,05,084	+2,06,914	2 to 6½	7 to 7½
1929–30	168	4,84,449	1,84,03,892	+4,17,340	,,	,,
1930–31	160	5,58,022	1,99,65,996	+1,18,874	3 to 7	7½ to 8
1931–32	159	10,50,997	2,04,84,634	+40,265	,,	,,
1932–33	155	11,34,992	2,19,50,103	+1,22,306	3¾ to 5	7 to 8½
1933–34	156	14,08,053	2,27,88,635	+1,75,528	2¾ to 5	7 to 8
1934–35	156	15,92,603	2,27,42,463	+3,47,846	4	8
1935–36	163	20,56,241	2,33,21,602	+1,60,330	3½	8½

* Including other funds, *i.e.* building funds.
† Share capital (paid up) + loans and deposits + reserve funds.

The bank supplemented the resources of Central Banks and assisted them in keeping money employed all the year round. The successful working of the bank inspired public confidence. This will appear from Table II (p. 120) showing the deposits held at the end of each year during 1917–36 from primary societies, Central Banks and individuals.

But the growth of public confidence confronted the Provincial Bank with a difficulty, for it had to find suitable investments for the yearly swelling volume of

TABLE II

LOANS AND DEPOSITS WITH THE PROVINCIAL BANK

Year	Shares, Rs.	Loans and Deposits (in Rs.) held at the End of the Year from—			Individual and Other Sources, Rs.
		Societies	Central Banks	Government	
1917–18	82,625	41,152	76,172	..	12,78,046
1918–19	2,08,950	9,209	3,84,567	..	13,60,343
1919–20	2,59,075	69,270	4,27,250	..	11,97,015
1920–21	2,97,500	5,985	3,94,011	..	13,30,907
1921–22	3,14,925	25,646	7,18,839	..	14,44,814
1922–23	3,59,900	1,33,762	10,07,515	..	19,05,971
1923–24	4,57,225	2,84,767	8,85,001	..	19,46,958
1924–25	5,48,675	4,26,223	13,20,878	..	37,11,016
1925–26	6,98,425	6,70,978	15,87,192	..	44,29,826
1926–27	10,50,175	3,33,441	13,93,439	..	88,30,331
1927–28	12,27,276	3,45,963	12,76,666	..	1,02,93,399
1928–29	13,69,475	8,74,444	22,56,145	..	1,23,27,483
1929–30	15,93,575	8,65,922	21,94,392	..	1,32,65,594
1930–31	16,45,300	8,33,481	22,86,695	..	1,46,42,498
1931–32	16,53,275	12,69,834	29,83,401	..	1,35,27,127
1932–33	16,68,750	17,32,725	48,96,965	..	1,32,87,663
1933–34	16,91,550	15,40,035	47,17,528	..	1,34,31,469
1934–35	16,68,750	16,67,795	50,05,869	..	1,28,07,446
1935–36	16,70,325	19,58,203	45,33,632	..	1,31,02,201

deposits. In 1922–23 during the collection season it was faced with a large surplus capital, even after repaying all its drawings from the Imperial Bank against sanctioned cash credits. Profitable investment for a portion of these funds was found outside the province. The bank lent 1½ lakhs to the Provincial Co-operative Bank of Burma, 2½ lakhs to the province of Bihar and Orissa. The balance was partly invested in Government securities and partly lent to the Calcutta commercial banks. In 1923–24 it was in a position to lend to the Madras Central Urban Bank a sum of Rs. 5 lakhs.

The year 1925–26 was one of great prosperity for the Provincial Bank. The volume of business was almost double of that recorded in the preceding year.

There was a similar increase in the amount of deposits. It was in a position to maintain a cover of 75 per cent against immediately maturing liabilities. But with the depression came lean years and the bank sustained a heavy loss in its investment in jute sale societies which had to be liquidated. Due to the closing of these societies the bank's membership declined from 168 in 1929–30 to 160 in 1930–31. It was estimated that the collapse of the jute sale societies had involved the bank in a loss of about 22 lakhs of rupees. To meet the situation the Government of Bengal arranged in 1929–30 for a cash credit of Rs. 30 lakhs from the Imperial Bank with the approval of the Bengal Legislative Council. But the Provincial Bank was able to tide over the difficulty without the necessity of drawing upon this cash credit at any time.

Apart from its losses incurred in financing the jute sale societies, the bank was further confronted by the difficulty that the economic depression had frozen most of the assets of Central Banks. The latter were therefore heavily in arrears with regard to their repayments to the Provincial Bank. To assist the bank the Government decided in December 1936 to grant a subvention of Rs. 2 lakhs a year for a period of twelve years. In granting this subsidy the Government had a twofold object in view. In the first place, the subsidy would enable the Provincial Bank to liquidate the 22 lakhs of rupees which it had lost on jute sale societies, thus improving its capital position. In the second place, the subvention would facilitate a reduction in the rate of interest charged to Central Banks, thus enabling the latter to pass on the concession to members of village credit societies.

As the member banks were heavily in arrears with regard to their instalments as a result of the depression,

the Provincial Bank became rather cautious in issuing fresh loans to constituent societies. On the other hand, deposits continued to flow into the bank in spite of reductions in the rate of interest. The following table will show the total deposits during 1930–36 from individuals, Central Banks and other societies:

TABLE III

SHOWING DEPOSITS IN THE PROVINCIAL CO-OPERATIVE BANK

Year	Total Deposits, Rs.
1930–31	1,77,62,674
1931–32	1,77,80,362
1932–33	1,99,17,353
1933–34	1,96,89,032
1934–35	1,94,81,110
1935–36	1,95,95,036

As there was no outlet for these funds within the movement, recourse was had to investment in gilt-edged securities. The following figures compiled from the balance-sheets will show that, while loans to banks and societies remained fairly steady during 1930–36, investments in securities tended to increase:

TABLE IV

SHOWING INVESTMENTS BY THE PROVINCIAL CO-OPERATIVE BANK

Year	Loans due by Banks and Societies, Rs.	Market Value of Investments, Rs.
1930–31	1,36,07,055	70,80,106
1931–32	1,34,29,730	70,80,106
1932–33	1,35,01,547	91,37,761
1933–34	1,38,61,259	88,08,784
1934–35	1,38,41,236	70,89,228
1935–36	1,16,27,870	86,23,925

But investments in gilt-edged securities should be regarded as a makeshift rendered necessary by the

exigencies of the situation. A partial outlet for the swelling volume of deposits may be found in the development of marketing credit with the assistance of the Central Banks.

With the inauguration of five land mortgage banks during 1934–35 the Provincial Bank took upon itself a new responsibility — that of floating debentures to meet the long-term capital requirements of the mortgage banks. The by-laws of the Provincial Bank were modified so as to permit it to take upon itself this new business. According to the modified by-laws, a trustee is to be appointed to safeguard the interests of the debenture holders. A committee will also be appointed for advising the board of directors regarding the sum to be raised by debentures and for dealing with applications for financial assistance received from land mortgage banks. This committee will consist of not more than seven members. Of these not more than five (including the Registrar *ex-officio*) will represent the board of directors and the remaining members will be representatives of land mortgage banks.

Another function which the Provincial Bank has taken upon itself is to act as a guarantor for any registered society in respect of the latter's financial obligation to any other bank. In particular, the Provincial Bank has assisted Central Banks in obtaining cash credit from the Imperial Bank. The procedure for the grant of this assistance is rather elaborate. The application for cash credit advance made by a Central Bank or an urban bank is made through the Assistant Registrar. He is required to certify that the applicant bank's total liability incurred by accepting deposits, borrowing or otherwise does not exceed ten times the sum of paid-up share capital and the reserve fund for the time being separately invested outside the move-

ment. In calculating this proportion, the amount of cash credit applied for is included in the liability. It is also necessary on the part of the borrowing bank to execute a demand promissory note in favour of the Provincial Bank on the guarantee of which cash credit is granted. The Provincial Bank is entitled to a small commission as guarantee fee. It is one of the implied conditions that the cash credit advance granted to a Central Bank will be used only for financing crops. Similarly, urban banks are entitled to accommodation if credit is used for short term requirements. This procedure for granting cash credit on the guarantee of the Provincial Bank had been in use since 1927. But in 1932 the Provincial Bank came to the conclusion that, in the absence of a specific provision in the by-laws empowering the bank to act as guarantor, it would not be regular on its part to grant this facility to co-operative societies.[1] The by-laws have since been amended[2] and the guarantee business has now been put on a proper footing.

Relation between the Provincial Bank and affiliated Societies

It is interesting to compare and contrast the relation existing between Central Banks and primary societies on the one hand with that between the Provincial Bank and its constituent members on the other. We have already referred in a previous chapter to the system of checks and balances subsisting between village societies and Central Banks. While it is regarded as one of the duties of Central Banks to guide the activities of village societies, the latter in their

[1] General Circular 8 of 1932.

[2] By-law 5, clause (c), sub-clause (3).

turn, through their representatives on the directorate of Central Banks, are expected to take an active part in shaping the policy of those institutions on which they are dependent for the supply of capital. Far different, however, is the relation between the Provincial Bank and its affiliated societies. It is difficult to find an exact parallel to the bond that exists between them, for it is neither co-operative nor commercial in character. The Provincial Bank has not that degree of control over the affairs of Central Banks which the latter exercise over village banks. When a Central Bank applies to the Provincial Bank for the grant of loan, the preliminary inquiry is conducted by an inspector who is an officer of the Co-operative Department. The Provincial Bank has no inspectorate of its own. It is, therefore, compelled to rely on an official agency for the disposal of loan applications. But the views of the official inspector are likely to be coloured to a great extent by those of his immediate superior officers. The apex bank of the province has not therefore the same facilities for assessing the credit of member banks as Central Banks possess over village credit societies. The absence of this facility reacts ultimately on the primary credit societies. To the extent that the Provincial Bank is able by its efficiency and businesslike disposal of loan applications to inspire public confidence and borrow at cheaper rates in the money market, it will be able to pass on this advantage ultimately to members of village societies. The only controlling power possessed by the Provincial Bank over Central Banks is that of asking for periodical returns prescribed by the board of directors. The by-laws[1] contemplate that a society holding shares in the Provincial Bank "shall be required to submit its

[1] By-law 50 of the Bengal Provincial Co-operative Bank Ltd.

books, documents and all registers relating to its business for the purpose of inspection to duly authorised persons". But this inspection is, as we have seen, conducted by an agency over which the Provincial Bank has no control. If the link between the Provincial Bank and its constituent societies is not co-operative, it will be equally misleading to describe the relation as analogous to that subsisting between a commercial bank and its clients. For it must be remembered that the borrowing Central Banks have a predominant representation on the directorate. Out of twenty-one members of the directorate (including the Registrar) as many as seventeen are representatives of affiliated societies, mostly Central Banks. The remaining three members are nominated by the Registrar. It is hardly necessary to point out that the borrowing Central Banks cannot from the very nature of things look upon the interest of the Provincial Bank as their own. The representatives of Central Banks on the directorate generally tend to keep together and vote together, particularly on issues relating to grant of loans. It is unlikely that they will oppose any proposal brought forward for the purpose of granting loans to one of their own class. A commercial bank which had its financial policy guided by borrowers anxious to obtain the maximum possible loan on the lowest terms would come to grief in no time. It is true that all members of the directorate of the Provincial Bank are not representatives of borrowing Central Banks. For among the ranks of the Central Banks are found institutions which have surplus funds deposited with the Provincial Bank throughout the year. These banks, which may be called *plus* banks, have no occasion to borrow from the apex bank at any time. Their representative might, therefore, be expected to exercise a

wholesome restraint on borrowing affiliated societies. But this contention loses much of its force when we remember that the number of representatives of *plus* Central Banks on the directorate of the Provincial Bank in any particular year is always a matter of accident. It is, therefore, necessary to provide for some element in the directorate that will act as a brake on extravagant borrowing societies. Individual depositors' representatives may be expected to exercise the necessary check.

We may recall in this connection the recommendation of the Maclagan Committee regarding the composition of the directorate of the Provincial Bank. The Committee urged that, while affiliated societies should have a majority of votes at the general meeting of shareholders, they should not have a dominating voice in the directorate. Management, they pointed out, should be in the hands of business men. This recommendation was doubtless made to avoid a position in which the funds of the bank might be placed entirely under the control of borrowing members. The preliminary report issued by the Agricultural Credit Department of the Reserve Bank in 1936 emphasised the importance of banking and business talent on the directorate. The Report adds:

> "We also consider that overborrowing and undue leniency in the matter of recovery might be checked if adequate representation could be secured to the depositors, either by nomination or other means on the Boards of Provincial and Central Banks."[1]

The reorganisation of the directorate of the Provincial

[1] *Preliminary Report of the Agricultural Credit Department of the Reserve Bank*, p. 22.

Bank has also become urgently necessary in view of the new functions which Provincial Banks all over India might be called upon to undertake. It is now regarded as essential that the co-operative credit banks should boldly strike out a new path and that they should grant marketing credit against the security of produce. In some provinces, *e.g.* Madras, a beginning in this direction has already been made. The Twelfth Conference of Registrars of Co-operative Societies, 1936, considered the linking of credit and marketing societies to be of great importance and suggested the introduction of this scheme to the provincial authorities.[1] In 1937 a Committee appointed by the Government to report on the co-operative movement of the Bombay Presidency and make recommendations regarding the future line of development considered it desirable that village credit societies should, besides supplying normal cultivation finance, serve as agencies for the sale of the produce of the members.[2] The main justification of this new line of business is that it will enable village banks to exercise some control over their members. There are reasons to believe that in the absence of a check of this kind the sale proceeds of marketable produce are likely to be frittered away, while the debt owed by members to village societies will remain unpaid. It is true that in co-operation reliance should be placed mainly on such attributes as thrift and self-help, but where conditions are not favourable to the growth of such qualities recourse should be had to adventitious aids, such as those derived from control over the sale proceeds of members' goods.

[1] *Proceedings of the Twelfth Conference of Registrars of Co-operative Societies*, 1936, p. 6.

[2] Resolution No. 7363/33 dated March 15, 1938, of the Government of Bombay Revenue Department.

Whatever may be the reason for this new approach to co-operative finance, there is no doubt that linking of credit business with sale of produce will call for commercial skill and experience, and to make a success of it the directing agency of the Provincial Bank should be in a position to command the services of able and alert business men familiar with commercial transactions of this kind. It is only when the Provincial Bank is thus rehabilitated by the inclusion of representatives not only of business men but also of individual depositors that the Reserve Bank will be in a position to supply capital to the small dealers.[1] It has been argued that there is no precedent "anywhere in the world for the representation of depositors as such" on the board of directors of co-operative societies.[2] But it is necessary to remember in this connection that the circumstances of India are so exceptional that established precedents have hardly any applicability. For the co-operative movement as a whole has not been able in this country to induce men of substance to join the village societies. The latter have not been able to act as savings banks for the countryside. They have been merely distributing agencies for loans taken from Central Banks. Nor has the movement stimulated thrift so as to enable members to become depositors of village societies [3] to any appreciable extent.

The following table will show the average sum

[1] *Report of the Agricultural Credit Department of the Reserve Bank*, p. 17.

[2] *Proceedings of the Fourth All-India Co-operative Conference*, held at Bangalore, July 1937.

[3] Mr. H. S. M. Ishaque, I.C.S., Bengal, writes as follows regarding some village societies : "Not a single old debtor, to my knowledge, has been able to become, through co-operation, the present or the future depositor of the parent society. A lot is made of economic depression and so on, and though I do not deny their influence it seems to me that the whole thing has been a mere form, a blind imitation of a western pattern without the requisite atmosphere or foundation and thus inherently rotten and doomed to failure" (*Rural Bengal*, 1938, p. 24).

deposited and the average loan taken by members of village societies in Bengal in 1935:

TABLE V

Division	Average Sum Deposited per Member, Rs.	Average Loan Taken per Member, Rs.
Presidency . . .	2·1	75·5
Burdwan . . .	1·8	53·6
Dacca	5·3	116·4
Chittagong . . .	8·0	109·9
Rajshahi . . .	3·8	100·8

It will be recalled that the directorate of mixed Central Banks includes representatives of individual shareholders who are mostly professional and business men belonging to the educated middle class, while there are no such representatives in Central Banks of the pure type.[1] This may be a partial explanation of the fact that the pure Central Banks have not gained the confidence of the depositing public to the same extent as mixed banks have done. It is significant that in 1936, while the pure Central Banks constituted 41·5 per cent of the total Central Banks of the province, their share of deposits from individuals came to only 17·5 per cent. It is therefore imperative that the interest of depositors should be scrupulously safeguarded by securing for them adequate representation on the board of directors.

Relation between the Reserve Bank of India and the Provincial Co-operative Bank

The Provincial Bank should form an important link in the chain connecting the co-operative banking structure of the province with the Reserve Bank. Its

[1] See Chapter III.

relation with the Reserve Bank therefore deserves careful study, particularly in the light of numerous suggestions which have been made for bringing about a closer union between them. Ever since the passing of the Reserve Bank of India Act of 1934 the subject has loomed large in annual co-operative conferences. Before we proceed to examine some of the resolutions passed at these conferences, it would be desirable to consider the main provisions of the Reserve Bank Act for the grant of financial assistance to co-operative credit societies. Under this Act all scheduled banks are entitled to rediscount facilities with the Reserve Bank. But it is one of the conditions of such rediscounting that scheduled banks must keep a minimum balance with the Reserve Bank of not less than 5 per cent of their demand liabilities and 2 per cent of time liabilities.[1] The Provincial Co-operative Banks, however, are in a privileged position, as no such restriction is imposed upon them in the Act with regard to their deposits, although they are entitled to financial assistance. The statutory report issued by the Agricultural Credit Department of the Reserve Bank has, however, laid down that one of the conditions for the grant of financial assistance will be the maintenance of "some minimum balance" by Provincial Banks to ensure that they are keeping sufficient fluid resources.[2]

The financial assistance which the Reserve Bank is authorised to grant may be divided into two classes: loans and advances and rediscounting facilities. The Reserve Bank may assist Provincial Co-operative Banks by loans and advances for a period not exceeding ninety days against Government securities and debentures of co-operative land mortgage banks which are listed as

[1] Section 42, Reserve Bank Act (Act II of 1934).
[2] *Statutory Report of the Agricultural Credit Department*, p. 37.

trustee securities.[1] Accommodation for a similar period may be granted against promissory notes of Provincial Co-operative Banks maturing within nine months issued for financing seasonal agricultural operations or marketing of crops.[2] It is also open to the Reserve Bank to grant loans and advances for a period not exceeding ninety days against promissory notes of Provincial Banks supported by pledge of goods against which cash credit or overdraft has been granted for financing seasonal agricultural operations or for marketing of crops.[3] Finally, accommodation by the Reserve Bank may take the form of rediscounting of bills of exchange or promissory notes maturing within nine months drawn or issued for seasonal agricultural finance or marketing of crops.[4]

The preliminary report issued by the Agricultural Credit Department of the Reserve Bank in 1936 and the report issued next year under section 55 (1) of the Reserve Bank Act laid down the terms and conditions under which financial assistance in the shape of loans and rediscount facilities could be given to co-operative societies. We have already referred to the recommendation that Provincial Banks will be called upon to maintain some minimum balance with the Reserve Bank as the price of financial assistance. They will be required to recast their balance-sheets mainly on the lines prescribed under the Indian Companies Act and submit themselves to periodical inspection.[5] Provided these reforms are carried out the Reserve Bank would, in its discretion, be prepared to grant short-

[1] Section 17 (4) (a) of Act II of 1934.
[2] Section 17 (4) (c) of Act II of 1934.
[3] Section 17 (4) (d) of Act II of 1934.
[4] Section 17 (2) (b) of Act II of 1934.
[5] *Statutory Report of the Agricultural Credit Department of the Reserve Bank*, pp. 22, 37.

term accommodation as laid down in the Reserve Bank Act. As regards credit for agricultural production, we have already seen that the necessary condition imposed by the Reserve Bank for the grant of assistance is the separation of long-term debts of co-operative societies from their short-term obligations. As the preliminary report of the Agricultural Credit Department has put it, "Except for genuine short-term business, Provincial Co-operative Banks cannot expect facilities from the Reserve Bank". Steps must also be taken to avoid overdues in future and that a serious effort should be made to build up a large reserve fund, particularly in areas which are liable to frequent crop failures. Similarly, with regard to marketing credit the Reserve Bank would be most reluctant to grant the co-operative societies any assistance so long as they were "too one-sidedly representative of the debtor". The suggestion has therefore been made that a reorganisation in the directorate of Central and Provincial Banks must be carried out before the Reserve Bank could let flow any capital to the ryot through the channel of the Provincial Bank.

Hitherto agricultural finance has been supplied predominantly by moneylenders and to some extent by commercial banks. With the passing of the Reserve Bank Act it was expected that some provision would be made whereby immediate relief could be given to agriculturists. In these circumstances the publication by the Reserve Bank of the two reports containing these cautious recommendations caused a good deal of disappointment and shattered the high hopes entertained in co-operative circles. In 1937 the joint session of the standing committees of the All-India Co-operative Institutes Association and the Provincial Banks Association pointed out that the Agricultural Credit

Department had not kept in view the intentions of the framers of the Reserve Bank Act.[1] The meeting therefore urged that the Reserve Bank should so work section 54, clause (b), as to help Provincial Co-operative Banks with short-term financial accommodation, so long as the security offered for a loan was sound.[2] In particular, the Reserve Bank was requested to develop sale and supply societies by giving accommodation on the security of promissory notes executed by Provincial Banks supported by pledge of goods or documents of title to goods. In 1934 the Third Conference of the Indian Provincial Co-operative Banks, held at Amraoti, had expressed disappointment at the unsatisfactory character of the provisions of the Reserve Bank Act and had urged[3] that the Agricultural Credit Department

> "should not merely be an agency for advice and consultation but should be a machinery for actually providing agricultural finance to the co-operative banks somewhat on the lines adopted in South Africa, Australia, New Zealand and other countries. (*Vide* the Agricultural Credits Act, 1928, the Commonwealth Bank Act, 1911–24, the Land Bank Act, 1912, etc.)."

The Analogies of South Africa, New Zealand, and Australia examined

In considering these concrete suggestions for the reconstruction of the Indian Reserve Bank, one is

[1] *Indian Co-operative Review*, January 1937, p. 135.

[2] Section 54, clause (b), runs as follows: "The Bank shall create a special Agricultural Credit Department the function of which shall be . . . (*b*) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other banks or organisations engaged in the business of agricultural credit".

[3] *Indian Co-operative Review*, January 1935, p. 12.

confronted by the difficulty that systems of rural credit as obtaining in South Africa, Australia and New Zealand have hardly anything in common. They differ from one another alike in their objectives as also in the machinery set up for achieving their objects. The South African Land Bank supplies long-term as well as seasonal credit, while the Australian Commonwealth Bank grants only short-term advances through its Rural Credit Department.[1] In New Zealand commercial banks are the most important source of short-term credit. Intermediate credit is supplied by an *ad hoc* organisation, while long-term credit is supplied partly by the Government and partly by the long-term mortgage branch of the Bank of New Zealand created in 1926.[2] Thus the policy pursued varies in different countries.

This diversity is apparent not only in the aims which the banks in South Africa, Australia and New Zealand have in view, but also in regard to assistance or subvention which they have received from their respective Governments. The South African Land Bank obtains a large part of its working capital from the Government of the Union of South Africa. From time to time the Union Parliament places funds at the disposal of the bank by voting definite amounts towards strengthening its capital. Under the terms of the Agricultural Credit Act of 1926[3] (South Africa), co-operative societies discount bills of their members with loan companies, and the latter in their turn rediscount such bills with the Land and Agricultural Bank. Owing, however, to the intimate connection that

[1] *Report of the Royal Commission on Monetary and Banking Systems in Australia*, 1937, p. 33.

[2] Belshaw, *The Provision of Credit*.

[3] *Report of South African Commission to inquire into Co-operation*, 1934, p. 160.

existed between the Government and the Land Bank, the needy farmers regarded it as an institution specially created by the Government for assisting them rather than an institution run on strictly commercial lines. The South African Commission appointed in 1934 to inquire into co-operation and agricultural credit argued that at the time when the bank was first founded by the Transvaal Government prior to the Union, the Government were compelled to find the capital. But with the change of circumstances it was necessary that the bank should become an instrument for mobilising private funds seeking investment rather than a Government-subsidised agency for rendering aid to farmers. The Commission accordingly came to the conclusion that the time had come when the Government should consider very seriously the severance of the Land Bank from the State. The bank should be so reorganised as to function as an independent institution for the grant of agricultural mortgage credit and mobilise private savings for its own use. The only assistance which should be given was Government guarantee of interest for a specified period on farm bonds issued by the bank. The Indian Provincial Banks Conference, in pleading for a reconstruction of our Reserve Bank, should have made it clear whether they envisage for India a State-subsidised Agricultural Credit Department of the type now existing in South Africa or an independent institution acting on purely business lines which the South African Royal Commission recommended.

Detailed references to the systems obtaining in New Zealand and Australia are not necessary. Suffice it to say that in both countries advances to agriculturists are subsidised by the State, though the amount of assistance rendered is probably less than in South

Africa. In New Zealand, in the aggregate, dealers provide the greater part of short-term and intermediate credit taken together, but commercial banks form the most important single source of short-term credit.[1] In 1926 the *Report of the Royal Commission on Rural Credit* recommended for New Zealand a scheme for State-subsidised intermediate credit on the lines of the system obtaining in the U.S.A. These recommendations were given effect to by the Rural Intermediate Credit Act of 1927. A Rural Intermediate Credit Board was set up for the purpose of granting loans to co-operative societies, individuals and associations specially set up under the provisions of the Act. The funds required for the purpose are raised partly by debentures and partly from advances made by the State. In 1927 the Minister of Finance was authorised to advance a sum not exceeding £400,000. This sum was interest-free for the first ten years. The long-term mortgage branch of the Bank of New Zealand, to which reference has already been made, also received a part of its working capital from D shares which were subscribed by the Government. The balance of working capital was raised by means of short-term and long-term debentures.

The Rural Credits Department of the Commonwealth Bank of Australia obtains the necessary capital required for the supply of short-term finance from the profits of note issue. The Commonwealth Bank Act of 1925 provided that 25 per cent of the profits of the Note Issue Department should be paid to the Rural Credit Department until a sum of £2,000,000 was reached. This figure was reached in 1932 and represented the permanent capital of the Department. The Act recommended that any further sum required by the Depart-

[1] Belshaw, *The Provision of Credit*, chap. v.

ment should be obtained by advances from the Commonwealth Bank. The Act of 1925 also contains a provision for supplementing the capital of the Department by loans granted by the Federal Treasurer and also by the issue of debentures by the Commonwealth Bank. But it was found unnecessary to use any of these facilities.[1]

It will appear from this brief survey of the systems prevailing in South Africa, New Zealand and Australia that it will hardly be possible for the Reserve Bank of India to follow blindly any one or more of these foreign banks. The bulk of the working capital of the Indian Reserve Bank is derived from the deposits of scheduled banks. It is not, therefore, open to the Reserve Bank to undertake businesses of the kind permissible to State-subsidised institutions. The Indian Reserve Bank must follow the lines of its own evolution and adapt, by the method of trial and error, a system suited to its own environments and needs. So far as long-term loans are concerned, these are being supplied at the present time to an increasing extent in India by Provincial Co-operative Banks or Central Co-operative Land Mortgage Banks. There is therefore no immediate need for the establishment of an All-India Land Mortgage Bank on the lines existing in South Africa, or for setting up a land mortgage department of the Reserve Bank on the analogy of the Bank of New Zealand. But a time will come when it will be necessary to centralise the issue of debentures in India. Some of the Provincial Co-operative and Central Land Mortgage Banks have already issued their debentures and

[1] Information on this and other points connected with the working of the Rural Credits Department of the Commonwealth Bank is to be found in an article by Sir Ernest Cooper Riddle, Governor of the Commonwealth Bank. A copy of this article was very kindly supplied by Mr. E. B. Richardson, Acting Secretary to the Commonwealth Bank.

it will not be long before other provinces will follow suit. The result will be a bewildering variety of mortgage bonds differing in their terms and conditions of issue and repayment, competing with one another in the Indian capital market, which is yet too small and undeveloped to absorb these issues. But if the marketing of the bonds is centralised, the issues will be based on the security of different types of property situated all over the country. A Central Bank of Issue having at its disposal a large amount of capital will create confidence in the investing public and will tend to standardise the bonds as a form of investment and improve the market for mortgage loans.

Indeed, when we take into account recent tendencies in this direction in the U.S.A. and Europe, the centralisation of issue appears to be inevitable in India. In the U.S.A. the twelve Federal Land Banks originally issued their bonds separately. The result was that securities were quoted at different prices in different parts of the country. The Land Bank operating at Oregon could not meet the prices quoted for bonds on sale by the Bank of Baltimore. This anomaly was remedied in 1916 with the centralisation of the issue of the Federal Land Bonds. The twelve Federal Land Banks were made responsible for one another's issues. The same tendency towards centralisation manifested itself in Germany in 1925 and led to the establishment of the Deutsche Rentenbank Kreditanstalt. In 1928 the Committee on Rural Credit in Australia urged the necessity of a standard form of debenture for the country as a whole. They remarked:

> ". . . It appears to us that in many ways it would be advantageous if the procedure as regards long-term agricultural credit in the various States were

as nearly identical as possible, and the efficiency of the system would be further promoted if a standard form of agricultural mortgage and standard bonds or debentures could be devised for the whole commonwealth."

This centralisation may, in course of time, be effected in India by the establishment of a mortgage branch of the Indian Reserve Bank on the analogy of the Bank of New Zealand already referred to.

Leaving aside land mortgage credit, if we consider the recommendations of the statutory report of the Agricultural Credit Department of the Indian Reserve Bank in regard to the grant of short-term accommodation, we find that for all practical purposes it will not be possible for the Reserve Bank to offer any assistance to the Provincial Banks for providing cultivation finance. For the recommendations made are such as are not capable of immediate fulfilment by the credit societies. Separation of long-term debts from short-term obligations, possibly by passing on the former to Land Mortgage Banks, reorganisation of the directorate of Central and Provincial Banks, and the maintenance of adequate reserve funds — these are measures that cannot be adopted overnight. In the circumstances the Reserve Bank will not be able to grant loans against promissory notes of Provincial Banks or discount such notes issued for cultivation finance. This is certainly disappointing to co-operators, but the special responsibility of the Reserve Bank as the custodian of the funds of commercial banks renders this caution necessary. Having regard to the conditions under which agriculture is carried on in this country, loans granted by credit societies for providing cultivation finance cannot always be repaid punctu-

ally.[1] Famine and flood, drought and cattle disease are factors which make agriculture at best a precarious occupation for the average ryot. It is therefore futile to expect the Reserve Bank to rediscount demand promissory notes of co-operative institutions which cannot from the very nature of things be self-liquidating in the same sense as commercial bills of exchange are.

At the same time critics of the statutory report may argue with considerable force that the report has made no distinction between one Indian province and another, between areas in which co-operation has proved successful and those in which it has failed. Not all Provincial and Central Banks are clogged with overdues, and even within a province in which overdue loans have assumed alarming proportions there are societies belonging to the A and B classes which satisfy the most exacting standards laid down by the statutory report. Further, in regard to grant of marketing loans and overdrafts against documents of title to goods there is a promising field of experiment which the Reserve Bank of India should have been asked to explore.

In this connection it is interesting to note the nature of assistance given by the Rural Credit Department of the Commonwealth Bank of Australia to co-operative associations in marketing their products. Under the Act of 1925 the Commonwealth Bank was empowered to make advances for a period not exceeding one year to co-operative associations, with a view to promoting the growth of co-operation amongst producers. The latter were encouraged to hold the products not for speculative purposes but in the interest of orderly marketing. The sums granted by the bank

[1] Compare Welcome Address by the Honourable Ramdas Pantulu, Madras Provincial Co-operative Conference, October 1937.

as advance during 1927–36 are given below:

TABLE VI

SHOWING SUMS ADVANCED BY THE COMMONWEALTH BANK

Year ending June 30	Total Advances, £	Year ending June 30	Total Advances, £
1927	7,428,000	1932	6,414,000
1928	5,360,000	1933	6,867,000
1929	8,445,000	1934	4,196,000
1930	6,608,000	1935	4,123,000
1931	8,635,000	1936	4,331,000

These sums were advanced at special concession rates, as the interest charged was below the overdraft rate. Moreover, the amount of overdraft against goods was such as no commercial bank would give as a strictly business proposition.[1] And yet the Commonwealth Bank of Australia sustained no loss on these operations. It will perhaps be urged that the Commonwealth Bank could afford to be generous to co-operative societies, as the former obtained its funds from the Government. But even in this country the Reserve Bank enjoys the use of Government balances.

It is on the development of marketing credit that the Reserve Bank of India should primarily concentrate in the near future. Properly conducted, this is a business in which risk will be reduced to a minimum, as advances will be limited under the Reserve Bank Act to a period not exceeding nine months. But in order to enable the Reserve Bank to grant the necessary marketing credit it will be necessary on the part of the Provincial Banks to modify their business procedure. For instance, in some provinces it is the usual practice to take physical possession of goods when granting such credit. This will have to be abandoned and its

[1] Article by Sir Ernest Cooper Riddle, Governor of the Commonwealth Bank, Australia.

place should be taken by an agreement which will offer the Provincial Bank a document of title to the goods against which the Reserve Bank will be prepared to grant the necessary credit facilities. In granting this assistance the Reserve Bank must make its title to the goods perfectly secure. Any such system of advance against agricultural produce must keep in view the following conditions : [1]

(1) It must provide against the borrowers' disposing of the goods which are the subject of charge without the knowledge of the creditor bank.
(2) It must provide against the borrowers' raising money elsewhere on the same security.
(3) It must enable the goods charged to be easily identified.
(4) It must leave the borrower reasonable freedom to market the goods immediately the market is favourable.
(5) In case of default it must provide a reasonably simple method by which the creditor bank can realise the goods which are charged in the mortgage.

All these imply the development of a system of licensed warehouses, grading and standardisation to which reference will be made in a subsequent chapter.[2]

[1] *Enfield Report on Agricultural Credit*, p. 44.
[2] Chapter VI.

CHAPTER V

LAND MORTGAGE BANKS

Mortgage Credit

VIEWED as business operations, a good deal of resemblance may be found between agricultural and manufacturing industries in regard to their need for capital as well as the manner in which they are able to supply their requirements of capital. Both branches of production require block capital to meet expenditure on permanent improvements, and circulating capital for annually recurring needs. Both are equally forced to rely on credit agencies for the supply of capital. It is not, however, possible to proceed very far without noticing certain fundamental differences between the two. While the manufacturer is in a position to renew his circulating capital several times within the year, it is not often that the agriculturist is in a position to do so. The renewal of capital in manufacture is to a large extent dependent on the resourcefulness, enterprise and initiative of the business man. The agriculturist, on the other hand, is powerless in this respect as he is dependent on the caprices of Nature. Apart from these considerations, it has to be borne in mind that, in manufacturing industries run on joint-stock lines, permanent or block capital is raised by means of public investment. But there is hardly any joint stock in agriculture, as farming is usually dependent on the credit of one single person.

Agricultural credit is broadly divided into two

categories, mortgage and personal credit. But it is sometimes the practice to refer to rural credit in terms of long-term and short-term requirements. This, however, introduces an element of confusion, for there is no hard-and-fast line of demarcation between the two. For instance, credit for a period exceeding six months up to a period of three years is referred to as Intermediate Credit in the U.S.A. But in other countries such credit is usually referred to as Short-term Loan. Then, again, short-term credit, whatever that may mean, tends to become a long-term one if the loans are renewed from time to time. In most agricultural countries, due to fall of prices during the depression and insufficient repaying capacity of the borrowers, a considerable proportion of short-term obligations was converted into long-term commitments. In such circumstances the distinction between long- and short-term credit tends to become blurred.

The problem of mortgage credit in agriculture is the problem of finding a substitute for the industrial joint-stock method of raising permanent capital.[1] The purpose for which mortgage credit is required is well known. The agriculturist requires capital for the extension of his holdings and redemption of ancestral debts. Funds might also be required for capital expenditure for the improvement of lands. The underlying idea in land mortgage banking is the mobilisation of real credit through the issue of debentures and the disconnection between the debtor and the creditor through the instrumentality of specialised institutions. Indeed it is possible to maintain that the distinguishing mark of a Land Mortgage Bank is the issue of debentures. It is this feature that distinguishes it from other credit agencies, such as the Loan Offices of

[1] *Report of Agricultural Tribunal of Investigation*, p. 104.

Bengal, which grant credit on the security of land, and finance themselves by means of deposits. The distinction thus drawn between these different types of credit agencies is not a formal one, as might appear at first sight. For it is necessary to emphasise that a credit institution raising its capital from deposits must necessarily expect a quick turn-over of its funds. Such a bank can hardly finance long-term loans. The issue of interest-bearing mortgage bonds offers certain advantages alike to the investor and to the borrower. These securities enable investors to lend for periods sometimes extending over more than sixty years. The creation of a corporate body, the existence of which does not terminate with the individual, enables the investing public to place their funds in bonds of unquestionable security. When issued by a central body such bonds have the additional advantage that they are readily marketable. Fluctuations in price are minimised and the lender is safeguarded against the risk of loss of capital. The system of bond issue is equally advantageous to the borrower. In so far as fixed capital is raised in this way on the security of land, his remaining assets are left free for seasonal requirements.

Land Mortgage Banks may be divided into three categories: (1) those run on co-operative lines, (2) banks worked on joint-stock basis and (3) non-co-operative public institutions owned and directly controlled by States, provinces or municipalities. One of the earliest co-operative Land Mortgage Banks was the Silesian Landschaft established by Frederick the Great in 1769, who imitated the earlier experiments of the Dutch in this line. Membership of these associations was originally compulsory for every landowner in each of the provinces of Prussia. Members were jointly and severally responsible for one another.

In the second half of the nineteenth century another class of Land Mortgage Banks differing in important respects from the Landschaft was started. These banks were called the New Landschaft and were meant for small farmers. Membership of these institutions was voluntary, the societies being run on the principle of limited liability.

The second or the joint-stock type took a definite shape when, towards the middle of the nineteenth century, a Polish economist, Louis Francois Wolwoski (1810–76), proposed to apply the Prussian device, with this modification, that the co-operative element was to be replaced by the joint stock or the capitalistic feature. It is worth while at this stage to emphasise the distinction between the two types which have played such a prominent part in giving relief to the overburdened farming class all over Europe and America. The co-operative type is an association of debtors, while the corporative type is an institution owned and run by creditors for the sake of profit. A critic of the Prussian Landschaft has pointed out that, during periods of depression in the nineteenth century and also during the depression of 1929, the Prussian Landschaft virtually became a Government-subsidised institution for relieving agricultural distress. The capitalistic type, on the other hand, has more successfully weathered the storm, mainly because of greater discrimination exercised in granting loans. Some rough idea of the importance of private or corporative mortgage banks in Germany, the classic home of the co-operative type, may be gathered from the fact that in 1933 only about one-fifth of the total issue of the mortgage bonds consisted of those of the Landschaft, while the remaining four-fifths of the bonds were issued by the privately owned Hypothekbanken.

The third type as represented by the *non-co-operative* public institutions, although not so very important as the other two, has also a long record of useful service to its credit. In this class may be included institutions established by public authorities like States, Provincial Governments or Municipal Boards. These are generally subsidised institutions for which commercial or co-operative capital is lacking. During the first half of the nineteenth century some of the German States, *e.g.* Saxony (1832), Prussia (1850), established banks of this kind. Germany was trying to shake off the trammels of feudalism, and the need for the establishment of these subsidised banks arose out of the provisions of laws relating to the emancipation of land. The nobles required working capital to replace the feudal services then rendered by the peasantry, while the tenants required funds to redeem their lands from the rent charges into which their services and dues had been commuted.[1] To meet these needs State mortgage banks were started. In modern times illustrations of this type of bank may be had in the Land Mortgage Bank of Warsaw and the Bulgarian Mortgage Bank. In Middle and Eastern Europe these banks represent one method of protecting and subsidising agricultural interests.[2] In Germany a number of institutions of this type were created to tide over the difficult situation after 1923.

The relation that should subsist between co-operative Land Mortgage Banks and credit societies has been the subject of a good deal of controversy in India. At one time economists and public men were divided into two warring camps advocating the estab-

[1] Nicholson, *Report regarding the Possibility of introducing Land and Agricultural Banks in the Madras Presidency*, vol. i., p. 66.

[2] Palyi, *Principles of Mortgage Banking Regulation in Europe*, p. 9.

lishment of one of these types to the exclusion of the other. In 1895 Frederick Nicholson, in presenting his report on the possibility of introducing land and agricultural banks in the Madras Presidency, argued that land banks solely devoted to land mortgage credit were unsuited to the needs of that Presidency. He pointed out that, of the numerous mortgages existing there, half of those averaged only Rs. 44 apiece, and a mortgage deed with its stamp duty and registration charge was therefore an absurdity. He concluded with the observation that the vast bulk of agricultural and rural credit could and should be granted by village banks alone.[1]

But the days of rivalry between land and credit banks are now over. It is realised that these two institutions are not competitive but complementary, and that each has got its own sphere of usefulness. The promoters of co-operative credit societies now readily admit that they have no machinery for verifying titles, valuing lands and executing mortgage deeds. The rural societies are not in a position to advance large amounts to any one borrower, as these societies are run on the principle of unlimited liability. Besides, it must be recognised that the principle of mortgage security is different in nature from the principle of personal security which forms the foundation of rural co-operative credit societies. It may even be argued that the introduction of mortgage security undermines the principle of personal and collective responsibility. Apart from these considerations, there is the well-known fact that co-operative societies have short-term deposits which cannot be locked up in long-term loans. Long-term loans can only be financed by debentures.

[1] Nicholson, *Report on Land and Agricultural Banks*, preface, p. xiii.

Most of the Indian Provincial Banking Inquiry Committees which considered this question came to the conclusion that in the interest of sound financial management it was desirable to effect a clean cut between the Land Mortgage Banks and the co-operative credit societies. The only two Committees which differed from this view were those of Bengal and of Bihar and Orissa. The Bengal Committee came to the conclusion that there was hardly any case for separate Land Mortgage Banks in Bengal. The Bihar and Orissa Committee argued that it would be undesirable to set up separate Land Mortgage Banks, since the divided allegiance of members to two primary societies would create grave difficulties. The Bihar and Orissa Committee therefore recommended that the existing Central Banks should be organised into two separate departments, one dealing exclusively with long-term business. These two departments of Central Banks were expected to keep separate registers showing the amount of the business of each class. The actual working of this system in the province of Bihar and Orissa, however, demonstrated that the Central Banks were incapable of exercising that scrutiny and caution which mixed banking of this type required.[1] In Bengal the recommendation of the Bengal Committee has been ignored and the Government have boldly initiated the experiment of separate Land Mortgage Banks. It is true that in Bengal the Provincial Co-operative Bank will be allowed to float debentures to finance the primary Land Mortgage Banks. But even here the separation between long- and short-term lending will be effected by a very simple device. The debenture holders in this province will be given a charge not on the general assets of the bank, but only on the mortgages executed

[1] *Report of the Bihar and Orissa Committee on Co-operation*, p. 100.

by the borrowers, which will be assigned to the trustee as the custodian of the interests of the debenture holders. The principle of separation has therefore been accepted *in toto*.

But separation of the spheres of activity of primary co-operative credit societies and of Land Mortgage Banks need not necessarily mean a lack of co-ordination between the two. It is essential that there should be some unity of policy, both in the interests of the banks themselves and of the co-operative movement as a whole. In so far as members are common to credit societies and Land Mortgage Banks, the information collected by one institution regarding the borrowing capacity of its members should always be made available to the other. Co-operative credit societies should furnish a copy of the ledger account of those of their members who apply to a mortgage bank for a loan. On the other hand, mortgage banks should always be prepared to give access to all papers required by credit societies for the purpose of enabling the latter to decide loan applications. It is only when these different institutions work in harmony with each other that they will be in a position to render the maximum possible service to the community.[1]

It is interesting at this stage to review in brief the underlying principles which regulate mortgage banking in Europe and America. Practices vary in different countries, but at the same time it is possible to discover a few uniformities among such differences. The outstanding characteristic of mortgage banking is its separation from commercial banking. When an institution is privileged to issue mortgage bonds, it is usually divorced from deposit banking. But this is a

[1] Such co-operation is contemplated under the model By-Laws laid down for the Bengal Co-operative Land Mortgage Banks, Rule 39.

statement which must be accepted with caution. In Germany we find that institutions described as "pure" mortgage banks are allowed to receive deposits up to 50 per cent of their paid-up capital.[1] These banks, however, are remnants of a bygone period when commercial and even note-issuing banks were allowed to enter into mortgage business. But in regard to these banks law and custom prescribe a separation of the two departments. Another exception to the general rule is afforded by the case of Credit Foncier of France, which is allowed to receive deposits up to a prescribed maximum. The main advantage of separating mortgage from commercial banking is that the policy relieves the debtor from the dangers involved in the use of short-term deposits for long-term investments. The funds required for mortgage business should be obtained from the savings of the public rather than from the resources of deposit banks. This separation of commercial from mortgage banks is also illustrated in the case of Federal Land Banks of the U.S.A., which are not banks in the ordinary sense of the word. They merely act as intermediaries between investors buying bonds and borrowers securing loans on mortgage. The Land Banks are not permitted to do ordinary banking business. They must not accept deposits of current funds payable on demand. At the same time, for the convenience of their own clients, the banks may be allowed to conduct a restricted amount of this kind of business. For experience has shown that farmers may desire to keep their funds in the custody of the banks for short periods.

Another principle to which reference may be made is the equality of bond issue and the volume of mortgage loans. Whenever a mortgage is repaid there

[1] Willis and Beckhart, *Foreign Banking Systems*, ed. 1929, p. 688.

must be a corresponding reduction in the volume of mortgage bonds. The total volume of mortgage bonds should be covered by the amount invested in lands or by reserves accumulated for the purpose of purchasing the bonds.[1] In the old Prussian Landschaft this principle was emphasised by the rule which laid down that the mortgage bonds were to be issued on the security of specific properties. Although the practice of special hypothecation was subsequently abandoned, the fundamental principle remained.[2] This principle of mortgage banking has its analogy in the practice of note-issuing banks that the volume of notes issued must be fully covered by securities and cash. Not only is it necessary that the amount invested must be balanced by the amount issued in bonds but it is also desirable that, as far as practicable, the period of the maturity of the bonds should coincide with the period for which loans are granted. It is evident that a provision of this kind does not automatically secure either the solvency of the bank or the marketability of the bonds issued. For while the mortgage loans may be renewed after the expiry of the original period of investment, the bondholder may not always be willing to renew his loan to the bank. The rules of some of the co-operative mortgage banks provide a fixed ratio between the debentures issued and the share capital, as distinguished from the ratio between debentures and the value of the property mortgaged. Thus in the newly started mortgage banks of Bengal the ratio provided for is 1 : 20, *i.e.*, the amount borrowed in the form of debentures must not exceed twenty times the paid-up capital *plus* the reserve fund. Similar reservations exist in the Land Bank and Mortgage Company

[1] Palyi, *Principles*, p. 12.

[2] Tcherkinsky, *The Landschaften and their Mortgage Credit Operations in Germany*, p. 28.

of Egypt and the Danish and Norwegian Mortgage Banks. But it is evident that there is no rational basis for this restriction. For the main security of the debenture holder lies in prudent, cautious and careful valuation of the property mortgaged and not in the share capital. Indeed, some of the co-operative mortgage banks have often very little or no share capital. The only effect of laying down a minimum ratio between share capital and debentures is to restrict the field of mortgage credit, and to exclude a number of concerns which might otherwise be sound.

A question which is of paramount importance is the extent and nature of State aid granted to Mortgage Credit Banks. It is apparent that any system of mortgage credit must have for its basis the guarantee of the titles to the land by the State. It is against public policy that there should crop up disputes regarding the titles to land. Primarily, of course, it is the individual farmer who is handicapped owing to uncertainties of this kind. But it may be argued that the community as a whole does not escape from their baneful effect.

Mortgage banks are often granted the power of foreclosure and of sale without recourse to law courts. There is also prescribed a speedy foreclosure procedure. The borrower is given the advantage of low rates of interest and of easy instalments, and he has himself to blame if he is unable to carry out the conditions of the contract. In India the question of the right procedure to adopt is still in a nebulous state and is complicated by a number of considerations. In the first place, it has to be borne in mind that a mortgage executed in favour of the bank may be annulled by the provisions of the insolvency law. In the second place, there is the vexed question of priority as between loans granted by the Government under the Agricultural

Loans Act and those granted by mortgage banks. But whatever may be the ultimate solution of these difficulties, the fact remains that mortgage banks will cease to be workable if they become once enmeshed in the legal complexities usually associated with civil court procedure. It has been maintained that, possessed of the summary power of foreclosure, the Land Mortgage Banks will not exercise that caution, vigilance and watchfulness in granting loans which they would otherwise have shown. Those who argue in this strain might be reminded that to ensure the marketability of the debentures it is necessary to keep clear of all legal disputes. Apart from this, the grant of summary powers to the banks might mean a substantial reduction in the rate of interest charged to the borrower. The only person likely to be inconvenienced by this right is the dishonest borrower, who would otherwise take advantage of the disinclination of the creditor bank to bring his land to sale.

A critical examination of the operation of Land Mortgage Banks in the various provinces of India will show that in some of these areas banks have been handicapped in their working due to the heavy percentage of overdues. In the province of Madras statutory powers have been given to the banks to sell the mortgaged lands without recourse to the courts, and it will be interesting to watch the operation of this enactment on the extent and incidence of overdues. It has been argued that if the right of foreclosure is exercised and property brought to sale without recourse to courts, the co-operative movement will suffer in popularity. This criticism appears to have little or no validity. For special powers have always been given to co-operative credit societies under section 43 of the Co-operative Societies Act to realise

their dues by summary procedure. Under the operation of the section any dispute, including a dispute regarding overdues, might be referred either to the Registrar or to arbitrators for decision. Some local governments have framed rules providing for the enforcement of the Registrar's decision or the arbitrator's award as a decree of civil court. Other local governments have gone further and have armed themselves with more stringent powers. They have made rules rendering all such sums recoverable as arrears of land revenue. If drastic provisions of this kind which already exist, do not make the co-operative movement unpopular, it is difficult to see how the summary right of foreclosure and of sale will make it more so.

Another form of State assistance which is sometimes granted to these credit institutions is the exemption of the debentures from income tax. The issue of tax-exempt debentures enables the farmer to secure funds at a comparatively low rate of interest. It would, however, be argued that the policy of granting exemption from income tax is likely to entail a loss of revenue, and that it involves the grant of subsidy of an undesirable kind. This loss is bound to be serious, particularly in a country with a steeply graduated income tax. For the bonds are likely to find their way into the hands of those who are subject to high rates of income tax and super tax. There is the further consideration that the policy of tax exemption involves the liberation of unearned incomes and the imposition of a correspondingly higher rate of tax on those deriving their income from personal labour. Nor is it possible to rebut the charge that to exempt debentures floated by mortgage banks is to grant a special privilege to one particular type of investment. There is no doubt considerable force in these arguments. But at the same

time considerations of public policy may outweigh the economic disadvantages inherent in a policy of tax exemption. If it is decided that the mortgage bonds have to be made popular and acceptable to likely investors, the loss of revenue may be incurred to attain the objective.

Apart from tax exemption, it is also open to the State to help the societies in another way. Mortgage bonds are usually ranked as trustee securities. Owing to the rigid conditions regulating their issue and amortisation, these bonds form an ideal investment and represent the highest type of safe investment. In Europe such bonds are generally issued only against first mortgages. In France mortgages on mines and theatres are not allowed, while those on forests and vineyards are permitted within limits.[1] The private mortgage banks in Germany are not allowed to invest more than half of their capital in undeveloped lands. It is by devices such as these that the speculative element is sought to be avoided. In Holland the postal savings banks publish from time to time a list of mortgage bonds issued by the various banks in which the Postal Department is prepared to invest their surplus funds. These various methods of State aid and State control, mainly indirect, do not exhaust all the means which are usually adopted by modern Governments. In Hungary, for instance, the State subscribed a part of the foundation capital.[2] In France the Government gave a subsidy to the Credit Foncier, which was also guaranteed a monopoly of long-term mortgage business. In the U.S.A. the Government subscribed to the capital stock of each Federal Land Bank to the extent of $750,000. As there are twelve Federal Land

[1] Palyi, *Principles of Mortgage Banking Regulation*, p. 21.
[2] *Report of the U.S. Commission on Land Mortgage Credit*, p. 22.

Banks, the total amount of capital subscribed by the Government was $9 millions. No interest has to be paid on this loan. The Government of Great Britain heavily subsidised the Agricultural Mortgage Corporation set up under the Agricultural Credits Act, 1928. The amount of State assistance which should be granted must obviously depend on historical and economic circumstances giving rise to the need for the establishment of these banks. In the case of new countries the need for State assistance is obviously much greater than in older countries. As an illustration we may refer to the assistance given in Australia, where most of the mortgage loans are made through State institutions, out of funds which are either provided by the States or guaranteed by them.[1] In New South Wales, Victoria, South Australia, the rural bank departments of the State Savings Bank supply the necessary facilities to the farmer. In the case of the U.S.A., on the other hand, the aim of the promoters of the Federal Land Banks has been to organise the credit machinery in such a manner as to attract the savings of the private investor by reason of the inherent soundness of the investment and not because of any guarantee by the State.

Land Mortgage Banks in Bengal

The first Land Mortgage Bank established in India was incorporated in London in 1863 and commenced operation early next year. It was modelled on the Credit Foncier of France and was run on joint-stock lines. This bank, known as the Land Mortgage Bank of India Ltd., had a nominal capital of £2,000,000 divided into 100,000 share of £20 each. Of this nominal

1. *Report of the Committee on Rural Credits in Australia*, p. 7.

capital only £2 was paid up on each share, the bank relying for its working capital mainly on the issue of debentures. These were floated at a little over 5 per cent per annum and were repayable within thirty years at par. The maximum period for which loans were granted was seven years, and the rate of interest varied between 8 and 10 per cent. For about twenty years the bank carried on a profitable business throughout the whole of India.[1] But due to circumstances beyond its control, the bank ceased to function about the year 1885. This bank was a purely private concern. It enjoyed no subsidy and received no special privilege from the Government.

One of the earliest schemes for the establishment of State-aided Land Mortgage Banks was that framed by the Government of India in 1882. The scheme contemplated the establishment of a private bank, taking the place of the village usurer, but bound at the same time to restrict its dealings with the more solvent cultivators and to supply capital at comparatively low rates. The idea was communicated to the Government of Bombay, which suggested that the bank should be started in the Purandhar Taluka of the Poona district. The capital of the proposed bank was fixed at Rs. 2,00,000, of which one-half was to be invested in Government securities. The bank was to take upon itself the task of liquidating the indebtedness of the ryots of the *taluk* with the aid of a loan of Rs. 6½ lakhs from Government at 4 per cent, the bank lending the money to the ryot at 9 per cent. The loan of 6½ lakhs was to be repaid by the bank within a period of two years. The Government of India agreed to give this bank the privilege of recovering its debts through revenue courts.

[1] Article by J. C. Sinha, *Bankers' Magazine*, 1929.

"We therefore propose", said the Government of India, "to confine the privilege to the case of debtors whose affairs are liquidated by the Government in co-operation with the bank, and to restrict it to a period not exceeding ten years."

Certain other concessions were also contemplated. The Government undertook to place the proposed bank in the position of a first mortgagee in respect of the liquidated debts.

The tentative scheme thus formulated was communicated to the Secretary of State for India in 1884.[1] It was, however, rejected by him on the ground that the position of the proposed bank was extremely anomalous. It was called a private bank, but it was given special privileges and placed by law in a position which could be justified only on the assumption that it was to work on behalf of the Government for political or social objects rather than on ordinary business principles. The Government were to lend at 4 per cent, the bank charging 9 per cent from the ryot. It was not quite clear, said the Secretary of State, why the bank should have a profit of 5 per cent on the transaction and why the ryot should not have the benefit of lower rate of interest. The Secretary of State ended his despatch with the observation that the only function of the Government in the matter of relief of agricultural debtors was to hold the balance even between the creditor and the debtor and to provide speedy, cheap and equal justice to the ryots.

It will be recalled that the Deccan Agriculturists Relief Act was passed in 1879. This measure enabled the ryot to take advantage of a simple insolvency procedure and thus free himself from his load of indebtedness in certain cases. It did not strike the Secretary of

[1] Despatch No. 7 from the Governor-General, dated May 31, 1884.

State for India as anomalous that, within six years of the passing of this beneficent measure, he should be expatiating on the virtues of *laissez-faire* and the inexpediency of interference with "the operation of the ordinary laws of trading between the ryots and those from whom they obtain advances". Nothing tangible came out of these proposals for the establishment of a State-aided institution, and more than thirty years elapsed before Land Mortgage Banks were inaugurated in India under the auspices of the Co-operative Department. The first of the series was the Jhang Co-operative Mortgage Bank established in the Punjab in 1920.

The scheme for the establishment of Land Mortgage Banks in Bengal took a definite shape when the Bengal Banking Inquiry Committee suggested their establishment with capital derived principally from debentures of which the interest was to be guaranteed by the Government. The depression of 1929 with the sharp fall of agricultural prices intensified the hardship of the agricultural debtors, and the Government came forward with a tentative scheme for the establishment of five such banks in different districts of Bengal. The Government of Bengal decided to inaugurate the new Land Mortgage Banks within the framework of the existing co-operative organisation.

The membership of these banks is open to persons of limited means who may or may not be connected with existing co-operative societies. Members are admitted only after a careful inquiry showing that their income is such as to enable them to pay interest and other charges on loans granted. Critics have argued that the business of supplying long-term finance could have been entrusted to rural co-operative credit societies. They entertain the apprehension

that if a new class of banks is set up, the co-operative movement in its short-term credit side might receive a set-back. Such apprehensions are, however, groundless. For it is possible to maintain that under existing conditions in this country the financial position of the credit society is likely to improve by the inauguration of the machinery of mortgage credit. The defaulting borrowers of co-operative credit societies may be divided into two broad classes. In the first category might be included those who are unable to pay under any conceivable instalment plan. There are also persons whose assets are such as to enable them to repay, provided the instalments are extended over a long period. So far as the first class of defaulters is concerned, the credit societies will have to suffer a loss in any case. But as regards the second, the Land Mortgage Banks may afford relief. If the indebtedness of this class is taken up by such banks, the dues of credit societies will have been paid off. It is true that in such circumstances the Land Mortgage Bank will hold a prior mortgage against the land of the borrower which will reduce the total corpus of unlimited liability in the credit society. But it must be remembered in this connection that there is no bar to members of primary credit societies mortgaging their lands to outsiders and paying their dues. The result of the transfer of indebtedness to Land Mortgage Banks will be that credit societies will retain only such borrowers as do not default in normal circumstances.

The scheme framed by the Government contemplated that the capital will be raised from shares and also from the sale of debentures not exceeding Rs. 12½ lakhs issued by the Bengal Provincial Co-operative Bank. These debentures will carry Government guarantee as regards interest payments. When,

however, five Land Mortgage Banks were actually established in Bengal during 1934–35 it was found that a departure had been made from the proposals originally drafted. In the first place, Government had introduced a class of preference shareholders who were not eligible for loans, but were entitled to a preferential dividend. In the second place, as the legal formalities connected with the issue of debentures could not be completed in time, the Provincial Bank was authorised to provide long-term capital to the extent of Rs. 12½ lakhs. In 1936 these five banks had a total share capital of Rs. 17,150 and a working capital of Rs. 2,02,113. The bulk of the working capital was derived from the Provincial Bank, which had granted a loan of Rs. 1,84,363 during 1935–36. The amount which a primary Land Mortgage Bank is allowed to borrow is subject to two restrictions: (1) that it will not exceed twenty times the paid-up share capital plus the reserve fund, and (2) that the amount borrowed will not exceed 50 per cent of the value of the lands mortgaged.

The primary societies will borrow mainly from the Provincial Co-operative Bank, which will issue in due course debentures against lands mortgaged by borrowers to the primary Land Mortgage Banks. The primary banks will assign their mortgages to a trustee who will be expected to look after the interest of the debenture holders. The Registrar will in the first instance act as trustee on behalf of the debenture holders. The original scheme contemplated that the Provincial Co-operative Bank will be able to float debentures at 5 per cent and lend to the primaries at 6½ to 7 per cent. The primaries in their turn, it was suggested, might grant loan at 10$\frac{15}{16}$ per cent, thus obtaining a very fair margin between their borrowings and lending rates.

These rates will now have to be reduced in view of the prevailing condition of the money market.

The banks are expected to build up reserve funds which will enable them to meet unforeseen losses. Out of the total profits 25 per cent at least must go to the reserve fund; another 25 per cent may be distributed by way of dividend on shares and bonuses to office-bearers. It is laid down that the reserve fund shall not be drawn upon except with the permission of the Registrar.

The investment made by the bank will be in the form of loans to members. Here, again, rigid conditions are laid down as to the amount which a member can borrow. The conditions may briefly be enumerated as follows: (1) No member is allowed to borrow in excess of twenty times the value of his paid-up share, subject to a maximum of Rs. 2,500, a limit which may be raised to Rs. 5,000 in special cases. (2) He cannot borrow in excess of 50 per cent of the market value of the lands assigned by mortgage deeds to the bank. (3) A person who is a member of any other co-operative society cannot borrow from the Co-operative Land Mortgage Bank unless his application is recommended by such co-operative society and also by the Central Bank to which the co-operative society is affiliated. (4) In all cases a borrower must satisfy the primary Land Mortgage Bank that his income is such as to enable him to pay the annual interest and the instalment of the principal sum due from him. (5) The primary societies can grant loans only on first mortgages and on the assurance that the land mortgaged shall not be subject to any subsequent encumbrances. Besides these safeguards the directors may, in their discretion, require the borrower to furnish two personal sureties. Loans will be granted for a period

not exceeding twenty years. On any interest or instalment of the principal remaining unpaid, interest will be charged.

It is worth while at this stage to consider in some detail the position of the debenture holder. For it is on the position of the debenture holder that the success or otherwise of the scheme will mainly depend. The interest of the debenture holders is safeguarded in the scheme by the establishment of a Redemption Fund and by the provision that debentures will be paid off on the expiry of thirty years from the date of issue. The main function of the Redemption Fund will be twofold. It will be charged with the payment of interest due on such debentures, and secondly, it will be utilised for the redemption of the stock. It is contemplated that the money paid into the Redemption Fund will be invested in the Government securities or in Postal Savings Banks in the name of the trustee. It is also open to the trustee to invest such fund either in approved debentures or shares issued by any other society. On the expiry of thirty years the duty devolves on the trustee to pay the debenture holder any outstanding interest together with the principal. If, however, the Redemption Fund is insufficient to cancel the debentures, the primary Land Mortgage Bank will be made liable for the balance due to the debenture holders. The reserve fund or the unpaid liability of the shareholder will then be requisitioned to meet the obligations. It is always open to a primary bank to redeem any issue of debentures in whole or in part before the expiry of thirty years when called upon by the trustee to do so. Whenever it is decided to redeem a portion of the debentures, the particular issues to be redeemed will be decided by lottery held in the presence of the trustee or some persons deputed by him.

It may be noted in this connection that there are two systems which may be applied for the redemption of debentures.[1] The first one is the Sinking Fund Plan. Under this system the debentures must be redeemed on the expiry of a certain number of years. The proceeds of the debentures become the capital of the bank. They are issued and re-issued as loans. But the obligation always rests on the bank to maintain the sinking fund at such a level as to enable the bank to cancel the debentures when they fall due.

Under the rival method, known as the Amortisation Plan, the principal sum repaid by the borrower is always earmarked for redemption purposes, and the bank must repay debenture holders in some systematised manner. Each year the bank issues notice of the quantity it wishes to redeem. If a sufficient number of debentures is not voluntarily forthcoming for redemption, debentures up to the required amount may be retired by drawing lots. The bank may offer cash or new bonds up to the value of the bonds so redeemed, but the debenture holders have liberty to accept or refuse the new bonds and to demand payment in cash.[2]

The first method has much to commend it. Looked at from the point of view of the investor, the merit of the scheme lies in the fact that he is sure of his investment for a definite number of years. He is relieved of the anxiety and trouble of finding fresh investment for his money for a fairly long period. In the rival scheme of systematic annual redemption the investor may be

[1] *Report of the U.S. Commission on Land Mortgage Credit*, p. 41.

[2] It is interesting to note in this connection that one of the Federal Land Banks in the U.S.A. — the Springfield Bank — introduced an elastic method of payment whereby the farmer could make extra payments in prosperous years and smaller payments in lean years for the purpose of debt redemption. Similar facilities were given by other banks, but were not availed of by farmers. Campbell, *American Agricultural Policy*, p. 83.

called upon to seek fresh fields of investment at any time, if his bond happens to be the one retired by lottery. But the sinking fund plan is open to the objection that it may result in higher rates being charged to the borrowers. For the essence of the sinking fund plan is the separate investment of the fund. If the investment is injudicious it is the borrower who has to make good the loss.

Intimately connected with the position of the debenture holder is the valuation of the lands mortgaged by the borrower. Many a Land Mortgage Bank scheme has come to grief on this rock, and it is of the utmost importance to realise that the question of valuation is at once one of the most delicate and difficult in mortgage banking policy, particularly in regard to farm lands. In France for a long time the Crédit Foncier used to advance loans on the valuation given in the *Cadastre*. This was a valuation made for the purpose of the assessment of the land tax. When conditions are comparatively stable such valuation may furnish a fairly useful and safe guide. But the cadastral survey became obsolete with the lapse of time, and the values recorded in the survey ceased to bear any relation whatsoever to the market value of land and its productive capacity. This method of assessment had therefore to be abandoned in favour of a more rational scheme. In Germany, too, it was discovered during the course of an inquiry in 1890 that mortgage banks specialising in urban estates had advanced money against valuation of buildings made for purposes of fire insurance. It is not difficult to realise why such banks soon came to grief, for assessments made for purposes of fire insurance usually err on the side of over-valuation. It is necessary to emphasise that most of the loans granted in this country will be for the

purpose of paying old debts and not for effecting improvements in the soil. The statutory report issued by the Agricultural Credit Department of the Indian Reserve Bank has no doubt laid down that the main purpose of long-term loans raised on the security of land should be the improvement of the land itself. But it is worth noticing that, even in a country like the U.S.A., the home of progressive farming, the bulk of the loans granted by the Federal Land Banks has been for debt redemption.[1] The bearing of this fact on the need for conservative valuation is obvious. Beyond formulating a general rule of this kind it is not possible for any controlling authority to lay down hard-and-fast formal rules. One must rely largely on experience and common sense, honesty and judgment of valuers. The sponsors of Land Mortgage Banks in Bengal have therefore done well in emphasising that the basis of the valuation is the price which the land will realise if sold in the open market. In deciding the value it will be necessary to take into consideration the probable out-turn of crop, the average price of the crop and the cost of cultivation. The valuation thus arrived at may be checked in the light of the price fetched for similar lands in the neighbourhood and also the price realised for similar lands at revenue sales.

It was pointed out in a previous paragraph that both on theoretical and practical grounds it was desirable to effect a clear separation between the business of short-term finance of rural credit societies and that of mortgage finance of the Land Mortgage Banks. As a corollary to this proposition it follows

[1] Of the loans granted by the American Federal Land Banks from the time of their inception to the end of 1930 about 77 per cent was for repayment of old debts, while only about 8 per cent was for buildings, improvement, equipment and fertilisers: *Statistical Abstract relating to Federal Land Banks*, 1931.

that, corresponding to the apex bank for short-term finance, there should exist a central institution which will issue the debentures necessary for financing long-term loans. In the Presidency of Madras such a Central Land Mortgage Bank was established in 1929. To this bank all local mortgage banks are affiliated and debentures are issued with a floating charge on the mortgages.

In the Punjab the procedure adopted has been quite different. The land mortgage business has been financed by the Provincial Co-operative Bank, which has issued debentures from time to time by means of a charge created on its general assets and not specifically on the mortgages assigned to it by primary societies. In Bombay also, before the establishment of the Central Land Mortgage Bank in 1935, it was on the Provincial Co-operative Bank that the primary mortgage banks had to rely for finance. This practice of utilising the services of the Provincial Banks is not without its disadvantage. The Provincial Co-operative Banks have often borrowed by means of cash credits from the Imperial Bank. If, however, the debentures issued by the Provincial Banks are a charge on the general assets of such banks, difficulties might be experienced in obtaining loans either from the Imperial Bank or the Reserve Bank. A case of this nature arose in the Punjab where the directors of the Punjab Provincial Co-operative Bank tried to meet the objection of the Imperial Bank by transferring into the sinking fund a sum equivalent to the debentures issued.[1] The Bombay Provincial Co-operative Bank also found itself handicapped in its financial relations with the Imperial Bank of India owing to the floating charge of the debentures on the general assets. Difficulties of this kind will be avoided in Bengal, where the Provincial Co-operative

[1] *Annual Report on the Working of Co-operative Societies, Punjab*, 1927–28.

Bank will establish a Redemption Fund charged specifically with the payment of interest and redemption of debentures. As the business of land mortgage grows there will no doubt be established in this province a Central Land Mortgage Bank on the lines of those existing in Madras and Bombay.

The Land Mortgage Banks of Bengal are yet in an experimental stage and it is too early to pronounce any judgment on them. It is evident that they are proceeding very cautiously in regard to granting loans. In 1935–36 they received 2628 applications for an aggregate loan of over Rs. 13 lakhs. Out of these only 757 applications were accepted for loans amounting to nearly Rs. 3½ lakhs. Most of the applications were rejected owing to the unwillingness of the co-sharers to append their signature to loan applications, and also on account of the absence of repaying capacity on the part of borrowers. In spite of the cautious policy which the banks have been following, the first faint symptoms of what looks like the familiar problem of overdue loans have already manifested themselves. If arrears make their appearance on a large scale in the future, the banks may find themselves confronted with a situation comparable to that in the Punjab, where the overdue loans have led to a virtual deadlock in the affairs of Land Mortgage Banks. The Punjab is handicapped by the fact that most of her banks began their career at a time when prices were high, agriculture was prosperous, and there was ample margin between the value of the land provided as security and the loans granted. With the onset of the depression came lean years and the banks entered upon a difficult and critical period. The securities are now practically unrealisable and many of the banks have found it necessary to foreclose and take possession of the debtors' lands.

But the income from the lands is not even enough to cover the interest charges. In some districts, *e.g.* Jhang and Lyallpur, the authorities have been forced to adopt coercive measures in the form of civil arrests. All these measures have not succeeded in preventing the stagnation which is the dominant feature of the Land Mortgage Banks in that province today.

A few figures will illustrate the present position. In 1927–28 the amount of loans granted was Rs. 7 lakhs. In 1932–33 only one bank, that at Gujranwalla, granted loans to the extent of Rs. 3,784. The table given below will show the extent to which the banks were forced to reduce the amount of their loans :

	Rs.
1927–28 . . .	7 lakhs
1928–29 . . .	6·31 ,,
1929–30 . . .	3·28 ,,
1930–31 . . .	1·51 ,,
1931–32 . . .	0·17 ,,
1932–33 . . .	Rs. 3,784

The average value of the loan which amounted to Rs. 1,976 in 1927–28 was reduced to Rs. 1,289 in 1930–31. In 1931–32 the average was only Rs. 330. There has been a steady and an alarming increase in the amount of overdues. This will be evident from the fact that in 1930–31 the total amount of overdues was only Rs. 1·85 lakhs. In the two succeeding years the figures were Rs. 3·90 lakhs and Rs. 4·30 lakhs. In 1931–32, in Lyallpur, out of 414 borrowers as many as 317 were defaulters. In Jhang the number of defaulters was 114 out of 166 loan accounts. In Gurgaon as many as 161 out of 232 borrowers failed to pay their dues. It was decided at a conference of all the Canal Colony Mortgage Banks held in 1931 that the instalment due from the borrowers in these areas should be reduced by as much as 50 per cent. In spite of the reduction

of the demand, borrowers were not able to meet their obligations.[1]

But the troubles of the Punjab are not solely due to external forces over which she could hardly be expected to exercise any control. Her difficulties are partly to be ascribed to the extravagant loan policy adopted by most of the banks. There are reasons to believe that in a mood of optimism borrowers mortgaged their future far too heavily. Loans were originally limited to fifteen times the net income. If the amount of the loan did not exceed thirty times the land revenue, no detailed assessment was made of the borrower's income; a summary inquiry by one of the directors was considered quite sufficient. Injudicious advances naturally became the normal feature of the loans. It must be remembered in this connection that directors in Co-operative Land Mortgage Banks have nothing to lose and everything to gain by the adoption of a liberal loan policy. In a Co-operative Land Mortgage Bank directors might be borrowers but are not creditors. In a Central Co-operative Bank directors are often depositors but they are rarely borrowers. Sympathy for their friends and relatives and their own personal interest make the directors of Land Mortgage Banks disinclined to subject loan applications to that careful scrutiny which a director of a commercial bank or of a Central Co-operative Bank would normally exercise. The consequence of this extravagant loan policy adopted by a partial and an indifferent directorate was that, with the fall of prices, the burden of the debt became disproportionately heavy in comparison with the net income from the land. The mistake of this policy was realised in 1931 and the Colony Banks decided to cut down the

[1] *Report on the Working of Co-operative Societies, Punjab*, 1931–32.

amount of loans in future. Formerly the maximum loan that could be granted to any one individual was Rs. 5,000. Some banks, however, went so far as to allow Rs. 10,000, and in the case of one particular bank the limit was Rs. 15,000. A conference of the Colony Banks held in 1931 decided to limit the maximum to Rs. 4,000. This policy of reduction in the amount of loan was adopted as a general measure by most of the Land Mortgage Banks in the Punjab and in 1934–35 only two banks did any new business. In view of this lamentable plight of the Punjab Land Mortgage Banks, it was certainly a wise step which the Government of Bengal took when they gave the mortgage banks summary powers for realising their dues. The Co-operative Societies Act, 1912, and the rules made thereunder, do not permit of the recovery of dues of co-operative societies by summary procedure except when a society is in liquidation. The provisions of the Public Demands Recovery Act were therefore amended in 1938 and the Land Mortgage Banks in Bengal were given the privilege of recovering their dues by certificate procedure.

As the main object of the Land Mortgage Banks is the liquidation of old debts, it has been decided to work these banks in Bengal in co-ordination with the Debt Settlement Boards, which have the same end in view. In granting loans the mortgage banks have been handicapped by the fact that, owing to the slump in land values brought about by the depression of 1929, the repaying capacity of the borrowers has dwindled considerably. Unless the old debt granted by money-lenders is scaled down to a level well within the means of intending borrowers, there will hardly be any margin of income on the basis of which mortgage banks will be prepared to lend. It is here that the Debt Settlement Boards set up under the Bengal Agricultural

Debtors' Act have been called upon to assist the mortgage banks. After the terms of settlement scaling down the past debts are arranged by the Debt Settlement Boards as a result of negotiations with moneylenders, the Land Mortgage Banks find it easier to grant fresh loans. To facilitate this co-ordination between these two agencies the Government of Bengal decided to establish special Debt Settlement Boards with jurisdiction coterminous with those of mortgage banks. Some of the members of the board are taken from the directors of mortgage banks, and applications are entertained simultaneously by Debt Settlement Boards and Land Mortgage Banks. The latter often experienced considerable difficulty in the past in carrying on negotiations with moneylenders for the purpose of reducing the volume of past debts. Not infrequently moneylenders resiled from their agreements in the hope of extorting a larger sum from mortgage banks. This is made difficult under the new system, for awards of Debt Settlement Boards are legally binding on the parties.

In view of the fact that the Land Mortgage Banks are still in an experimental stage in this country, it is desirable to proceed with the utmost caution in regard to such matters as distribution of dividends and the period for which loans are granted. Madras allows a maximum dividend of 8 per cent. In Bengal too a maximum of 8 per cent is contemplated.[1] In the Punjab, however, the entire profits are invested in the reserve fund and kept as security for the creditors. It is true that the policy of refusing to distribute dividends to shareholders increases the cost of a loan to a borrower. But it must not be overlooked that it is of the utmost importance to inspire confidence in the debenture

[1] By-law 56 (2) (iii).

holder, and no policy is more likely to achieve this object than that of crediting the entire profits to the reserve funds. When the experimental stage is over, this policy may be revised in favour of one which is more generous to the shareholder.

At the present time the period for which loans are granted in India varies between ten and twenty years. The Punjab began with advancing money for a period of ten years. At the conference held in 1931 the Canal Colony Mortgage Banks decided that in future loans should be given in approved cases for fifteen years instead of ten years. In the Madras Presidency the usual duration of a loan does not exceed twenty years. The Eleventh Conference of the Registrars of Co-operative Societies expressed the view that the existing system of land mortgage banking in the provinces of Madras, Bombay and Assam should be modified, and that the maximum period of the loan should be extended to forty years. *Prima facie* the recommendation sounds plausible, for it cannot be denied that in some of the European countries loans run for as long as seventy-five years. From the point of view of the borrower the extension of the period over which the loan is granted reduces the amortisation payment. It must, however, be remembered in this connection that there are special considerations which render it imperative that the mortgage banks in India should confine themselves to businesses which are intermediate in duration between the short- and long-term loans prevailing in Europe and America. With an uneducated and unbusiness-like peasantry the benefit of a loan is generally forgotten while the burden continues. Nor must we ignore the consideration that an extension of the period of the loan increases the risk of litigation amongst the heirs of borrowers. It is therefore desirable

that risks of this kind should be avoided as far as practicable. The analogy of Western countries does not apply to India. For in some of the European countries where long-term loans prevail, arrangements are made for the repayment of the loan within a generation by attaching to the loans life insurance policies payable on the death of the borrower.[1]

The ultimate security of the Land Mortgage Banks must rest on the value of the lands mortgaged. Any restriction on the right of the banks to transfer the property, or any factor causing uncertainty in the value of the mortgaged security, must ultimately result in raising the rate of interest against the borrower. It is therefore of the utmost importance that risks, obstacles and uncertainties should be reduced to a minimum. Among the many risks borne by Land Mortgage Banks, mention may be made of the operation of the insolvency laws. In the Punjab during 1931–32 as many as 17 insolvency petitions were filed by borrowers. These proceedings caused considerable embarrassment to the Land Mortgage Banks in the province, already hard hit by the fall of prices. Another piece of legislation which gives rise to uncertainty is the operation of the Land Improvement Loans Act. Should the Government granting loans under this Act have a prior claim to that of the Land Mortgage Banks? In the Presidency of Madras difficulties arising out of the operation of the insolvency laws and the Land Improvement Loans Act have now been removed to the satisfaction of Land Mortgage Banks with the passing of Act X of 1934.[2] But the problem has to be faced along similar lines in other provinces.

Apart from these difficulties there are legal impedi-

[1] *U.S.A. Commission on Agricultural Credit*, 1914, p. 38.

[2] Sections 27 and 28 of Act X of 1934 (Madras).

ments experienced by the Land Mortgage Banks in some provinces in bringing the mortgaged property to sale. In the Punjab the operation of the Land Alienation Act decidedly reduces the value of the mortgaged security, and until the law is modified in favour of the Land Mortgage Banks landowners cannot expect to reap the full benefit of mortgage credit. Obstacles to the transferability of holding also exist in the province of Bengal, and it is necessary to indicate that successful working of Land Mortgage Banks largely depends on the removal of those legal difficulties which hamper the banks in exercising their rights of bringing the mortgaged property to sale.

State assistance in India in land mortgage banking has taken various forms. Apart from guaranteeing interest and the principal of the debentures, the Provincial Governments have subscribed to the debentures. They have lent the services of their officers to Land Mortgage Banks and have come forward to meet the preliminary expenses of inaugurating these banks. The Government of Madras gave the lead in this respect. When the Land Mortgage Banks were first started they encouraged the movement by subscribing to the debentures issued by the primary Land Mortgage Banks. Up to the end of 1929, of the total debentures of the value of Rs. 7,58,000 floated by the primary societies the Government took about Rs. 2,27,000. When the Central Land Mortgage Bank was started in 1929 the Government guaranteed interest on all debentures up to Rs. 50 lakhs issued during the first five years. With the passing of the Madras Central Land Mortgage Bank Act of 1934, the Government were given the power to guarantee not only interest but also the principal. In accordance with the provisions of this Act, the Government guaranteed

the principal and interest not exceeding 5 per cent on all debentures to the extent of 50 lakhs of rupees. This guarantee was subsequently raised to 125 lakhs of rupees. In the Punjab the Government guaranteed the interest on debentures at 6 per cent for a period of twenty-five years. Debentures of the value of Rs. 5 lakhs were floated in October, 1926.[1] These debentures will mature for payment in 1951, but could be redeemed at any time after 1936 on giving three months' notice. Since 1926 debentures have not been floated by the Provincial Bank. But the Government have assisted the Land Mortgage Banks by granting loans through the Punjab Provincial Co-operative Bank. In 1931–32, 14 lakhs were granted as loans, the interest charged being 6½ per cent.[2]

In Bengal, apart from agreeing to guarantee the interest on the debentures for a period of thirty years, the Government undertook to meet the entire cost of management of the five Land Mortgage Banks during the first year. During the second and third years of the banks' existence the Government had agreed to make good the difference, if any, between the gross profits and management charges. For efficient management of these banks the Government have lent the services of Sub-Deputy Collectors with settlement experience to act as managers for the first three years of their existence. During the first year the pay of these officers was borne entirely by the Government, while during the second and third years Rs. 200 per month was payable by each bank for the services of these managers.

[1] *Annual Report on the Working of Co-operative Societies, Punjab,* 1926–27.

[2] *Ibid.* 1931–32.

CHAPTER VI

PRINCIPLES AND PROBLEMS OF CO-OPERATIVE MARKETING

THE aim of co-operative marketing societies is to stabilise marketing conditions by means of orderly and regulated supply of commodities. At first sight it might appear that marketing societies run on co-operative lines and organisations like Marketing Boards set up in Great Britain and South Africa have the same aims and ideals. This view, however, is erroneous, and rests on a superficial resemblance between organisations which differ fundamentally from each other. Co-operative societies work through the laws of supply and demand. They do not seek to eliminate the operation of such forces, but merely help in the better adjustment of supply to demand over a given period of time. The Marketing Boards of Great Britain and South Africa or the Stabilisation Corporation of the U.S.A. have a different *modus operandi*. Their object is to maintain a relatively high price level by means of a restriction of supply. Dr. Nourse, Director of the American Institute of Economics, has made this point clear in the following remarks :

> ". . . Stabilisation operations of the Farm Board have confused the public mind with respect to the distinction between artificial price schemes and co-operative marketing, and hence have brought

disrepute upon co-operative marketing and great harm to agriculture."

Co-operative societies seek to work within the framework of the competitive system, while the Marketing Boards seek to establish a quasi-monopolistic organisation. This distinction must not be interpreted to imply that the competitive system is perfect in its working. The competitive system suffers from the fact that in most agricultural countries the number of intermediaries through whose hands commodities pass is far too many, having regard to the services that are required of them. In such circumstances interests of consumers as well as producers are bound to suffer. The consumers are penalised, because they have to pay for the services of each intervening agency, while the producers are handicapped as the more unscrupulous among the brokers often take recourse to practices of a shady and questionable character to eke out a living. Those who are familiar with the conditions prevailing in this country will not dispute the truth of this remark. The competitive system is defective in another respect. Except when the market is highly organised wide price fluctuations are bound to occur, for it must be remembered that the supply of agricultural goods is seasonal, while the demand is steady and continuous throughout the year. The aim of co-operative marketing societies is to eliminate these fluctuations by a more effective adjustment of supply to demand.

The argument has been advanced that, useful as co-operative marketing societies are, they become more serviceable if the producers who keep aloof from them, are compelled by law to join an existing sales organisation. Thus in South Africa, section 17 of the Co-opera-

tive Societies Amendment Act, 1925, lays down that if in any area 75 per cent of the producers of an agricultural commodity are co-operatively organised and handle 75 per cent of the product, the Minister may, at the request of that organisation, prescribe that all producers within that area shall sell their product through the co-operative society or company. It is contended that in the absence of some sort of compulsion of this kind the whole benefit accruing from co-operative marketing societies accrues to the big producer who remains outside the co-operative organisation. The co-operative societies withhold their supplies during the harvesting season in the expectation of better prices during the off season. But the non-co-operating big business men, whose resources are ample and who can afford to wait, enter into competition with co-operative sale societies during the off-season, and succeed in carrying off a good portion of the profits.

The argument for exercising compulsion of this kind rests on a misconception of the nature and functions of co-operative sale societies. As has been pointed out before, it is not one of the objects of a sale society to control prices by restriction of supplies. The exercise of compulsion on producers can only benefit such a co-operative organisation if it is in a position to restrict the supply. But the fundamental aim of a co-operative society is not price-fixing, but a readier adjustment of supply to demand.

It is true that in evaluating the services of co-operative sale societies emphasis must necessarily be laid on the distributive aspect. We must not, at the same time, ignore the consideration that conditions of distribution have an important bearing on the production side. Indeed, it is possible to maintain that in

an occupation like agriculture, carried on by small farmers, the two aspects are indissolubly linked up with each other. Marketing co-operatives, besides discharging the essential function of adjustment of supply and demand, exercise a potent influence on the technical side of production. In countries like Denmark, where co-operative sale societies have taken a deep root, it is regarded as one of the functions of such bodies to improve the quality of products sold. The important discovery of pasteurisation of milk was the outcome in Denmark of the adoption of co-operative dairying. The method of pasteurisation thus initiated by Denmark subsequently spread to other lands. It is by team-work that the Danish peasant proprietor owning small farms was in a position to attain a high standard of perfection in the quality of butter, till then possible only to the large landowner.[1]

No less important are the political and administrative advantages accruing to a community in which the farmers are organised along co-operative lines for meeting their various needs of credit, purchase and sale. Reports regarding conditions of crops can be effectively and accurately collected by a Government with the aid of co-operative bodies. It is easier for a Government to offer assistance to farmers when associated in well-knit groups all over the country. From the political standpoint, it may be argued that the organisation of farmers along co-operative lines "makes it possible for the voice of the primary producers to be heard and their interests directly represented." Anyone who has watched the efforts in Bengal towards enforcing a policy of restriction of jute production will readily admit that the task of the Government would have

[1] *Report of the Agricultural Tribunal of Investigation, Great Britain,* 1924, p. 136.

been easier if they could have relied on the assistance of a chain of co-operative societies.

In discussing the various aspects of co-operative marketing in general, one is confronted by the difficulty that abstract statements regarding sale societies have rarely a universal applicability. For each country has evolved a form of organisation suited to its own local conditions. Circumstances vary from country to country, and often in various parts of the same country. Denmark, for instance, has specialised in what are called "single purpose" societies. The principle underlying this form of organisation is the creation of a separate society for each commodity. The Danish peasant often becomes a member of several sale societies, *e.g.* for butter, bacon, eggs, meat, and purchase societies for feeding stuff. We may, however, conceive of circumstances in India where on account of a variety of reasons it would be uneconomical to organise several co-operatives for marketing different commodities. For one thing, the volume of business may not be such as to justify the creation of a multiplicity of societies. It is true that we have jute sale, cotton sale and paddy sale societies in this country. But instances are not wanting of fairly successful mixed-purpose societies. In the Punjab, for instance, in 1935 there were 23 sale societies known as co-operative commission shops. The main business of these bodies is to arrange for the purchase and sale of seed on commission. But these societies also undertook the sale of the agricultural produce of members. The factors that determine the type of organisation suited to the local needs of any given area are the volume of business and the supply of local talent for a business-like administration of these co-operatives. It has to be noted in this connection

that one of the causes of the failure of many of the cotton sale societies in the Bombay Presidency has been inefficient management due to the lack of business men on the committee of management. These cotton sale societies aroused the hostility of cotton merchants, who viewed with alarm the growing competition from their new rivals. Conflict between sale societies and private trade agencies became acute, and the co-operatives came to grief in many instances as they lacked trade experience in their board of management.

Local conditions in India perhaps also require that, during the early years at any rate, sale societies should combine credit with marketing business. At the time when a loan is issued, credit societies might induce members to sign a marketing agreement bond to the effect that sales are to be effected only through the credit societies. This procedure will be advantageous not only to the grower but also to primary credit societies. The grower will get used to the ways of sale societies. He will also obtain higher prices than what he would ordinarily have obtained. To the extent that sales are effected through the lending societies, the latter are assured that the grower will not pay his outside creditors first and repay his debts to the society last.

Marketing associations provide the necessary capital by selling shares to members. The capital thus obtained is supplemented by accommodation from banks. A well-managed association as it grows in prosperity is in a position to provide further capital from its reserve fund. A peculiarity of the co-operative marketing organisation is that in many parts of the world it often works on what is called non-stock non-profit basis. The distinguishing mark of such an organisation is that it has no share capital. Its working capital

is derived from seasonal accommodation from the banks on the security of the commodities which are its only assets. In Denmark large co-operative sale societies are known to function without any share capital. The agreement entered into by members to deal exclusively with the sale society has been an adequate basis on which to borrow capital from the banks. In the U.S.A. the early forms of co-operative endeavour in the domain of marketing were mostly of the capital-stock type. But within the last two decades the U.S.A. has made considerable progress with the non-stock type which predominates in the cotton, tobacco and woollen industries. In 1928 the Federal Trade Commission held an inquiry as to the extent of the societies organised with or without capital stock. Of the associations answering the Commission's questions about 40 per cent. were on non-stock basis.[1] The economic justification for the establishment of societies of this type is to be found in the fact that many of these co-operatives require only seasonal capital, which can be obtained by pledging the assets in their possession. Permanent capital obtained by the sale of shares will be idle during most of the year, as marketing credit is all that is required.

Non-stock societies may function fairly well when banking accommodation is readily available. But experience has shown that even in Great Britain some of the co-operative societies, *e.g.* cheese and wool societies working on non-stock basis, have not always succeeded in securing the necessary accommodation from banks. New societies in particular, which are not known to the financial institutions, are in this unfortunate position.[2] Wool societies, for instance,

[1] *Senate Document No. 95, Seventieth Congress, First Session*, 1928, p. 246.
[2] *Report on Agricultural Credit, London*, 1927, pp. 25 26.

have experienced difficulties during the early weeks of the season in obtaining the necessary advance, as the banks are not always prepared to accept the security of the wool alone until the warehouse is filled.

The non-stock organisation is specially suited to trades whose requirements for capital are not very large. It has the additional advantage that it is really more in accordance with the co-operative ideal than the rival form of society. The non-stock form provides for a more democratic control, and distributes earnings on the basis of business brought by members rather than according to their capital contributions. But it is doubtful whether we in India have yet reached that stage of development at which we can fruitfully copy this model. It is not likely to enjoy that degree of confidence which will enable it to obtain financial accommodation from banking institutions.

Pooling

Marketing associations in Denmark and the U.S.A. have realised the advantages to be obtained from the practice of pooling. Under this system the identity of each parcel of articles is not preserved. The members receive a price based on the average selling price of the products. A distinction is usually drawn in this connection between a "merchandising pool" and a "speculative pool". In a speculative pool a large portion of the produce is warehoused and kept for fairly long periods in the hope of obtaining a favourable price. It is not the business of a marketing society to take recourse to pooling of this type. Its main function ought to be to spread the sales over the whole season, with a view to obtaining the best average price. If each individual producer did his own marketing through a co-operative association, it would be to his

interest to sell the crop only at a particular time. He would refuse to deliver his produce during seasons of the year when prices ruled low in the market. Working under these conditions, it would be difficult for a marketing society to obtain a hold over its customers. It is one of the objects of a merchandising pool to centralise the conditions of sale so as to ensure that the marketing risks are assumed by all the members of a given group. The members pooling together receive only the average price for the whole lot. They have therefore no interest either in the particular time at which the products are sold or in the price realised for any portion of the pool.

The advantages of pooling have to be estimated in relation to its influence on conditions of production. Any system of pooling to be successful must be based on gradation and standardisation of the merchandise pooled. If the producer of the superior grade of the commodity handled were offered the same price as one delivering products poorer in quality all incentives to efficient production would disappear. The better types of producers would tend to dissociate themselves from the pool, or would confine themselves to the production of an inferior type of produce.

Pooling, though not unknown, has its own special difficulties in this country. In the Punjab the commission shops have not yet taken to pooling in the strict sense of the term. They conduct their business mainly on what is known as the *Kachhi arhat* system.[1] The marketing societies merely act as agents for the grower without any attempt to organise a pool on co-operative lines. In the Madras Presidency there existed in 1933–34 as many as 53 loan and sale societies.[2]

[1] *Punjab B.E. Report*, p. 60.
[2] *Madras Report on Co-operative Societies*, 1933–34.

The produce dealt with in these societies are cotton and chillies, jaggery and groundnuts, turmeric, cotton seeds and *cholam*. Some of the larger societies facilitate the sale of cotton by advancing money on it and arrange for ginning, grading and sale. But the majority of these sale societies are very small ones, their main function being to advance money to the grower, thus enabling him to arrange for the sale of his own produce.[1] These organisations usually build or hire a godown in which the ryot stores his produce, obtains an advance from the sale society and sells the produce at his leisure. When the arrangement for sale is completed, the produce is released from the godown and the grower repays the advance. In the Bombay Presidency we have examples of both types of societies, viz. those in which produce is pooled and those in which sales take place on individual account.[2] The former type is represented by several cotton sale societies in the Surat district. Several cotton sale societies and ginning societies organised themselves into a union with headquarters at Surat. Its main business is to pool the cotton of the affiliated societies after such cotton has been ginned and graded, and to find buyers for the same in the Surat cotton market. It was estimated that the union handled about 10 to 20 per cent of the cotton sold in the Surat market.[3] In the Dharwar district societies organise periodical auction sales of superior cotton, sales taking place on individual account. It may be asserted with confidence that it will be many years before pooling will be adopted as a more or less general practice by co-operative societies in India. With the prevailing system of production and market-

[1] *Madras Report on Co-operative Societies*, 1928–29.

[2] See Evidence by Kaye and Burt representing Indian Central Cotton Committee, *Royal Agricultural Commission*, vol. ii. Part II. p. 29.

[3] *Indian Co-operative Review*, October 1935, p. 450.

ing of agricultural produce the progress of standardisation of produce must necessarily be slow. In the case of cotton, mixing is widely resorted to, and in the case of wheat it has been remarked that a single bag of wheat may contain half a dozen varieties.[1] Apart from this obstacle there is the reluctance of the grower to mix his produce with those of others in a common pool. The Linlithgow Commission pointed out that in India we have to deal with a multitude of small cultivators whose individual contributions are very much smaller than are those of farmers in countries in which pooling is tried. Nor is the rooted objection to pooling without justification. A society in which stocks are pooled is exposed to the dangers of a falling price level. In countries where agricultural production is more efficiently organised it is possible to guard against such risks by a careful study of market demands, of figures relating to acreage planted and estimates of market supplies and prices. The greater the knowledge on the part of the farmer of the market conditions, the easier is it for him to eliminate marketing risks. The practice of hedging also facilitates the transference of such risks. In India it is premature to think of such transactions which eliminate marketing risks altogether.

Member Contracts

Intimately associated with pooling is the practice of members entering into a contract with the association agreeing to deliver to the latter for a stipulated period all or a portion of the produce. The period for which the contract is entered into must necessarily vary with the nature of the business. In Denmark the usual period of engagement in the case of creameries is ten years, but varies in a few cases from five to twenty

[1] *Punjab B.E.C. Report*, p. 64.

years.[1] For egg-marketing societies the period is naturally shorter. In the U.S.A. the co-operative marketing laws of the States lay down the maximum period over which a contract may extend. In many States the permissible period is ten years. But there are other States which do not lay down any time limit, the contract remaining in force as long as the association continues in business. The following extract from the Co-operative Marketing Act of one of the States (Kentucky) will illustrate generally the nature of the engagement:

> ". . . that the grower will harvest and will deliver all his marketables (fruits and vegetables) at the association's shipping station at —— in said State in such quantities and conditions and at such times as the rules fixed by the Board of Directors of the association may direct. . . ."
>
> "That the grower will not sell or otherwise dispose of his fruits (and vegetables) covered by this contract to any purchaser except through the association unless such (fruits and vegetables) have been rejected by the association. In case the grower is offered a price in excess of the price presently obtainable by the association, he may submit such offer to the Manager. If deemed advisable, the Manager may authorise the member to accept the offer, but payment of the product shall be made to the association."

In the case of large co-operative federated organisations the contract form not only stipulates the delivery of product, but also provides for such things as quality and grading, methods of payment and sale and pooling

[1] Christensen, *Agricultural Co-operation in Denmark* (U.S. Department of Agriculture, Department Bulletin No. 1266).

arrangement.[1] Contracts of this kind bind not only the growers to the primary sale societies but also the latter to the larger centralised associations.

It is obvious that a contract offers certain advantages to co-operative sale societies in marketing their commodities and obtaining the necessary accommodation from the banks. It enables an organisation to gauge the volume of business and enter into contracts with its customers with the assurance that it can rely on the necessary supply from members during a given period of time. If a sufficient volume of business as stipulated in the contract is forthcoming the overhead expenses are kept down. The banks find it easier to finance the marketing co-operatives if the latter have the legal power to enter into contract with the growers and to pledge the latter's goods as security for loans.

Loyalty

One of the vexed questions confronting marketing societies is that of loyalty of members to the organisation. It is one on which the success of a society largely depends. If members are seduced away by tempting offers made by outside dealers during certain seasons of the year even the strongest organisation will wane, as it will be unable to establish confidence amongst large buyers. It has, therefore, been argued in some quarters that what is needed above all in ensuring the success of a sale society is " co-operative spirit ", as manifested by the loyalty of the members in bringing their products to the association, regardless of any advantages in the matter of price or credit facilities that might be offered by competing business men. This want of " co-operative spirit " and loyalty

[1] Forrester, *Report on Large Co-operative Organisation in the U.S.A.*, p. 82.

is sometimes put forward as one of the contributing causes of the failure of marketing societies in various parts of India. The Bengal jute sale societies, it is argued, failed because, among other causes, the ryots proved disloyal to the society. They did not bring their entire supply to the co-operative godown.[1] At the Conference of the Registrars of Co-operative Societies held in 1934 the opinion was expressed that the cardamom sale societies in South India were not prosperous as the members did not realise the advantages accruing from the development of co-operative spirit.[2]

Critics might be reminded that this lack of loyalty is not by any means peculiar to India. In other lands the same tendency is noticeable in a more or less acute degree. In Great Britain the Horace Plunkett Foundation,[3] in surveying the development of egg-marketing societies, deplored the tendency of egg producers to make private connections during autumn when prices were high and use the society only during spring glut when prices were low. In South Africa members of agricultural sale societies have often been known to escape their obligations by describing their goods as belonging to their sons, wives and daughters,[4] who are not members of the society. This practice puts a society at a disadvantage as compared to a private dealer.

Even in the U.S.A. we have seen that the co-operative spirit has not been strong enough to assure the loyalty of members, and recourse is had to the binding contract between the primary society and the grower, as also between the primaries and the centralised associations.

[1] *Report of Bengal Banking Inquiry Committee*, p. 138.
[2] *Proceedings of the Tenth Conference of Registrars*, p. 50.
[3] *Agricultural Co-operatives in England*, 1930, p. 231.
[4] *Report of S.A. Commission on Agricultural Credit*, p. 185.

Such agreements are not regarded as void either under common law or statute law as being in restraint of trade.

In India it appears that the question of binding agreement is one which has given rise to certain difficulties. The By-Laws of Sale Societies do contemplate a contract between the grower and the primary society, as the following extracts[1] from the model By-Laws of Societies operating in Bengal will show:

> "If the Society makes arrangements for the disposal of the produce of the members, all the members shall sell their produce to the Society, and if a member wishes to sell his product direct he should take the permission of the Committee of Management."

By-Law 12 runs as follows:

> "The Committee of Management may fine, suspend or expel a member for any breach of the Act, rules or these by-laws and conduct detrimental to the interest of the society."

The model laws framed for co-operative sale and supply societies indicate that —

> "4. The objects of the Society are (*a*) to sell and dispose of the agricultural produce of the members in the most profitable manner or to arrange for carriage or transportation to markets or otherwise of such produce;
>
> (*b*) To make from time to time with its members contracts requiring members to sell for any specified period of time all or any specified part of their

[1] By-law 51 of the Milk Producers' Co-operative Sale Society, Limited Liability, 1931.

agricultural produce exclusively to or through the association."

Similarly there is a provision for suspension or expulsion of a member for wilful contravention of the rules.

Provisions of the sort exist in the rules framed in other provinces of India besides Bengal. It appears, however, that these contracts are not legally enforceable under the provisions of the existing Co-operative Societies Act.[1] Even the milder penalties of fines contemplated by the by-laws are never imposed. In the Punjab commission shops a provision exists under which a member is bound to deliver all such agricultural produce as the society may be willing to accept. In default of delivery, it is open to the managing committee to penalise the member by a fine equal to the value of the produce which the member failed to deliver. But the committee are reluctant to apply this provision, because they feel that the member thus penalised will leave the society and use his influence to the detriment of the society's interest.

In the U.S.A. contracts between members regarding the disposal of produce are legally enforceable. Damages which are determined in advance are payable to the society for breach of contract. The contract form generally includes a provision to the effect that the grower should pay to the association by way of damages a sum varying with the amount of commodities sold, withheld or delivered otherwise than in accordance with the terms and conditions of the contract. Injunction might be issued by the courts for preventing sale to outside buyers or upon outsiders from interfering with the activities of co-operatives. In South Africa

[1] *Vide* Evidence by the Indian Central Cotton Committee, *Royal Agricultural Commission*, vol. ii. Part II. p. 29.

the existing laws provide that, where a member fails to sell his produce in accordance with the terms of the contract, the association might impose a fine on the grower, a fine which is recoverable by legal proceedings if necessary.

It is true that it is difficult to enforce loyalty by such legal devices. But penal clauses do often act as brakes upon temporary waves of disloyalty that generally arise in times of depression. It will, however, be inexpedient in the present stage of co-operative development in this country to introduce legally enforceable penal clauses of the kind that are found in the U.S.A. or South Africa. Such provisions are likely to scare away the ignorant peasantry who might otherwise feel inclined to join sale societies. Without adopting drastic measures of this kind it is nevertheless possible to introduce milder forms of coercion which might make it difficult for members to escape their obligations. At the present time members can resign their membership with perfect ease at any time when it suits their interest to do so. As soon as the outside market offers a slightly better price, it pays the members to sever their connection with the association. To prevent disloyalty of this kind, it might be laid down that a fairly long period of notice will be required before a member is permitted to resign membership. Then, again, another measure which our Indian societies may adopt is the device of withholding the rebate or dividend generally paid to members of co-operative sale societies according to the volume of the business.[1] It is possible to exercise indirect pressure on members' activities if it is laid down that the bonus will be payable only to such members as have patronised the association through-

[1] See Model By-Law 62 of Co-operative Sale and Supply Society Ltd., Bengal.

out the year or have been members for at least two years. In South Africa the co-operative maize societies levy a charge of 1d. per bag of grain delivered. This sum is placed to the credit of members' reserve account. It is repaid on resignation or death. But no repayment is made unless the contributor has been a member for at least three successive years. Much might be done to retain the members' loyalty and support by a suitable modification of such provisions.

Analogous to this device prevailing in South Africa is the service charge of the American co-operatives. Each member has to pay a fee based on the cost of handling the member's product. If any member deals with outsiders he has to pay this fee all the same. The member is thus deprived of the benefit of the higher price which he obtains by dealing with outsiders.

All these provisions are useful in their own way in retaining some amount of hold on members' loyalty and support. But it is futile to expect too much from legal and administrative provisions when the success of a marketing co-operative depends upon the tangible financial advantage realised by members. No contract, no penal fines can succeed in instilling loyalty if members believe that they derive little or no financial advantage from membership. Critics who harp upon the absence of the co-operative spirit in India are apt to forget that co-operative spirit is always the outcome of successful economic endeavour. No circulars issued by the co-operative departments, no propaganda carried on by non-official agencies can inculcate loyalty and promote the growth of co-operative spirit if members obtain better terms by dealing with outside agencies than with the association. Loyalty can only be retained by results achieved. It is a pity that this aspect of the question was not fully gone into either

by the Provincial Banking Inquiry Committees or the Central Banking Inquiry Committee of 1931. The latter merely made the observation that "there should be loyalty among the producers strong enough to keep them from the temptation of seizing opportunities of larger profits by selling elsewhere or from deserting the society on the first appearance of loss". But we look in vain into this report for any constructive suggestions for bringing about a change in the attitude of the grower towards sale societies.

Financing of Co-operative Societies

A co-operative marketing society requires credit no less than a merchant and manufacturer. The credit needs of such societies may be divided into two broad categories: marketing credit and production credit. Accommodation is required by sale societies to enable them to carry their stock seasonally received from members, while co-operatives combining production with sale such as silk and cotton-weaving societies require further credit during the process of manufacture.

Speaking broadly, it may be taken as true that the task of financing the co-operatives devolves on two different types of institutions. On the one hand there are the special co-operative financing institutions set up with the special object of financing primary societies doing business in rural areas. On the other hand, we have the general banking system of the country financing the co-operative organisation as a part of its normal business routine. The two different methods of finance should not be regarded as forming watertight compartments. For it has to be borne in mind that the co-operative financing organisation itself might be linked up with the general banking structure of the

community, thus establishing a *liaison* between the two different forms. Apart from this, there may be a hybrid type of credit supply which relies on special co-operative organisation no less than the accommodation available from commercial banks. Denmark and America furnish the best possible examples of this "mixed" type.

In Denmark the necessary supply of fixed and working capital required by co-operative creameries and bacon plant is obtained by loan from the savings institutions on the guarantee of members.[1] These institutions are voluntary community undertakings rather than co-operative banks strictly so called. They work under Government supervision. They advance money on the security of real property, but the bulk of their business is personal credit. Loans are advanced to local co-operatives on the guarantee of members. The members of co-operatives are bound jointly and severally for all financial obligations incurred by the associations. To the creditors individual members are jointly responsible for the debt, but within the co-operative association every member is liable for a definite sum which is determined by the volume of business transacted by him. The local co-operatives are often organised into central associations. The credit of these larger bodies depends upon the guarantee pledge certificate which stipulates for each local body a definite sum for which it will be responsible.

In course of time it was found that many of the co-operatives experienced considerable difficulty in obtaining the necessary accommodation from the private banks. New co-operative associations in particular were faced with the difficulty that savings

[1] Christensen, *Agricultural Co-operation in Denmark*, p. 84.

institutions often expressed reluctance in granting them any credit. Accordingly a plan was advocated by co-operative leaders for the establishment of a co-operative bank. This bank — known as the Danish Co-operative Bank — was inaugurated in 1914. This institution at one time occupied a prominent place in the banking system of Denmark and was regarded as the nation's clearing-house for all agricultural exports. The bank,[1] however, closed its doors in November 1925 and its place was taken by the Danish Co-operative Folk Bank.

We have thus seen that Denmark relied during her early years of co-operative endeavour on private enterprise for supplying the necessary capital. As the movement progressed, she was forced to set up a special co-operative machinery for supplying the credit needs of the marketing co-operatives. Not very dissimilar is the evolution of banking organisation in the U.S.A. For with the growth of the movement special machinery had to be set up in the U.S.A. for supplying credit to the marketing co-operatives.

The Federal Reserve System of 1913 contained no special provision for aiding systematic marketing. Banks belonging to the Federal Reserve System could rediscount with a Federal Reserve Bank agricultural paper with maturities for periods not exceeding six months. This arrangement was unsatisfactory, as farmers had to dispose of their crops in a glutted market owing to the pressure of maturing obligations. The realisation of this difficulty led to an extension of the maturity period for eligible agriculture paper from six months to nine months. Further arrangements were made for marketing credit in 1923. The Agricultural Credits Act of 1923 allows co-operative marketing

[1] Faber, *Co-operation in Danish Agriculture*, 1931, p. 149.

associations to issue paper which is eligible for discount with maturities up to nine months, if the money is advanced to members for agricultural purposes or if it is used to pay members for farm produce delivered or to finance the associations in packing, grading, preparing for market or in marketing products grown by members. At the same time twelve intermediate credit banks were set up to supply production and marketing credit to the co-operatives for periods ranging from six months to three years. In 1933 the various credit agencies working in the country and providing mortgage credit, intermediate credit and short-term credit were consolidated under the title of the Farm Credit Administration and placed under a Governor.[1] The country is divided into twelve regions, each area being placed in charge of a Land Bank Commissioner, Production Credit Commissioner, Intermediate Credit Commissioner and Co-operative Credit Commissioner, all working under the general direction of the Governor. The elaborate arrangement obtaining in the U.S.A. justifies the remarks of a recent writer that " there is scarcely a purpose connected with agriculture for which the farmer is not encouraged by Uncle Sam to apply to him for a loan ".

Compared to America, the arrangement existing in India for providing marketing credit looks almost primitive. The marketing co-operatives derive their capital mostly from Central Banks or unions to which the co-operative societies are affiliated. This may be illustrated by reference to the working of sale societies in the different provinces of India. The loan and sale societies of the Madras Presidency often hire or build a godown in which the ryot can store his produce and get an advance by pledging the goods. The sale

[1] *Year Book of Agricultural Co-operation*, 1935, p. 147.

societies in their turn pledge the goods to the Central Banks and the ryot delivers the crops to the purchaser only on repayment of the loan to the sale society. The loan given by Central Banks takes the form of cash credit up to a certain percentage of the value of the produce stored. It is customary on the part of the sale society and the Central Bank to insure the produce and the godown in the joint names of the sale society and the Central Bank. The main advantage which the ryot derives from these societies is that he is not forced to sell his goods to a particular creditor and on the creditor's terms. In the case of most of the loan and sale societies doing business on a small scale there is no endeavour to undertake joint sale of produce on behalf of the ryot. The arrangement prevailing in Bengal is not fundamentally different from that described above. Co-operative production and sale societies are organised into unions, which have tried to help the primary societies by granting advances and arranging for the marketing of the finished products.[1] In a few instances the unions have advanced raw materials, *e.g.* cotton or silk yarn, to the affiliated societies and have paid wages to the members according to a fixed scale. The union takes over the finished product for sale and arranges for the marketing of such goods. In the case of jute sale societies the Bengal Provincial Co-operative Bank took upon itself the task of financing a few of them.

The co-operative commission shops in the Punjab are unions of individuals or of co-operative societies. They act like ordinary commission agents, arranging for the sale of the members' goods on an individual basis. Pooling is as yet unknown. A member on

[1] *E.g.* the Bengal Co-operative Silk Union, Malda. See *Bengal Report on Co-operative Societies*, 1931–32.

bringing his goods to the commission shop might ~~instruct it~~ to arrange for the sale of his goods at once. He may also, if he so desires, deposit his goods in the godown of the commission shop and receive an advance up to 75 per cent of the value of the produce, the rate of interest charged being now a little over 9 per cent. It is always open to the commission shop to sell the goods if the margin of safety is reduced owing to a fall in the price of the goods. The commission shops are usually remunerated by a fee of 1 per cent on the value of all goods which are sold through their agency.

The *Report of the Agricultural Credit Department of the Reserve Bank of India* proposes a closer connection between the commercial banks on the one hand and the co-operative banks on the other. It emphasizes that the commercial banks must be enabled to take a greater part than they have hitherto done in the matter of short-term advances to cover the marketing of crops. The co-operative godown and sale societies should provide a general collective guarantee in addition to the security afforded by the produce. This will enable the commercial banks to finance the movement of crops on a smaller margin of profit. It will have the additional advantage that a new link will be furnished between the primary co-operative societies and the joint-stock banks. At the present time the general banking ~~structure and the~~ co-operative banking organisation work in different spheres, and it is only in the busy season that a link is established between the two. If the proposals of the Agricultural Credit Department of the Reserve Bank are carried out, the two organisations will be brought into closer touch with each other.

Sale societies all the world over have to contend with certain difficulties which are peculiar to the very

nature of their organisation. An individual business man is in a much better position to exercise control over the volume of production than a society composed of a group of individuals. A manufacturer tries, as far as practicable, to gauge the demand, and adjusts his scale of production accordingly. It is, however, difficult for a sale society to control the acreage planted by each farmer. It is only when a society is well organised, when its operation extends over a compact block of territory and when it is composed of a homogeneous class of people, that anything like unity and co-ordination can be achieved. Apart from this difficulty, marketing societies are handicapped by the fact that they lack a permanent body of members. New members join in the middle of a season, while old members drop out during periods of temporary prosperity. This constant change in the personnel has an injurious effect on the business policy of a society. It is hardly in a position to gauge accurately the season's supply or pursue a particular line of policy with any degree of confidence.

Such difficulties common to all marketing societies are intensified by certain additional factors operating in India. With an illiterate peasantry, suspecting every move on the part of the Department of Co-operation, it is difficult to enter into a binding contract. Again and again the promoters of sale societies in India have met with this obstacle. We have already seen to what extent it is essential to the success of a sale society that there should subsist a binding and enforceable contract between the individual member and the society. On the existence of such contracts depends the credit of the marketing society with the financing agency, such as a Co-operative Central Bank or an ordinary commercial bank. During the last

World War the weavers' societies in Bengal and the industrial unions to which such societies were affiliated enjoyed a certain measure of prosperity due to shortage and high price of cotton textiles. The market was assured, the price was remunerative. In spite of this favourable opportunity, the societies failed to make good, due mainly to the unreliability of the weavers. It was difficult to enter into a contract with them with any degree of certainty.[1] Their very prosperity made them reluctant to join a society which enforced discipline.

It is generally regarded as essential to the success of a sale society that it should handle a large volume of business which gives it certain advantages. An agency which handles large quantities of goods of a uniform quality enjoys greater bargaining strength than societies doing business on a small scale. It is a better judge of current prices and of possible price movements than individual farmers. Buyers are generally eager to transact their business with such societies, because large organisations give the buyer greater choice of qualities and standards. The Madras Provincial Banking Inquiry Committee pointed out:

> "It is only practicable to start more elaborate schemes of co-operative marketing where there is a necessary concentration of produce for despatch to a distant market or for consumption in bulk at a centre. This is the common factor of all co-operative marketing on a big scale whether it is 'sun-kist' oranges or Canadian wheat, or Danish butter or Coimbatore cotton."[2]

Judged by this test it will appear that only a few

[1] *Report on the Working of the Co-operative Societies, Bengal,* 1917–18.
[2] *Report of the Madras Provincial Banking Inquiry Committee,* p. 113.

articles like cotton and jute, tea and coffee, cardamom, pepper, onions, etc., can ever become the articles of co-operative trading on a scale at all comparable to that existing in the U.S.A. or Denmark. The bulk of our societies dealing in such commodities as jaggery, cotton and silk yarn, conch-shell and toys, must always be small-scale concerns, just keeping alive the principle of co-operation in the domain of production and marketing.

The marketing societies in this country are yet in their infancy and have only attained a limited degree of success. But their operations have often aroused the hostility of local dealers with whom these co-operative societies often compete. Testimony is available from most of the provinces in support of this statement. In the Punjab the local merchants have adopted an attitude of open hostility to the commission shops.[1] The cotton sale societies of Bombay have come into sharp conflict with existing trade agencies.[2] The jute sale societies in Bengal during their short and chequered career were opposed by powerful vested interests.[3] The local *mahajans* have often found in the working of co-operative weavers' societies in Bengal a menace to their moneylending activities. Their desire to use the weaver for their own advantage has often led the *mahajans* to oppose the establishment of sale societies.[4] On top of this opposition from outside have come trials and difficulties due to internal dissensions, lack of trade experience, inefficient management and the absence of a body of trained men able to take charge of these infant institutions. In Bengal one of the

[1] Evidence by Kaye and Burt, *Royal Agricultural Commission*, vol. ii. Part II.

[2] Evidence by Mann, *Royal Agricultural Commission*, vol. ii. Part I. p. 13.

[3] *Report on Co-operative Societies, Bengal*, 1926–27.

[4] *Ibid.*, 1917–18.

contributory causes of the failure of some of the jute sale societies was the constant bickering between the board of directors and the manager. The *Report on the Working of the Co-operative Societies in Bengal, 1928–29*, observed as follows: "In Madaripur acute difference between the Manager and Board of Directors resulted in considerable loss of business". What was true of Madaripur was also to a great extent true of other societies in Bengal.

Any system of marketing credit, whether granted by co-operative sale societies or by the ordinary commercial banks, must provide for adequate accommodation for storage of crops. Such accommodation, however, is woefully inadequate in India, particularly in rural areas. The Banking Inquiry Committees of most of the provinces stressed the necessity of providing for better storage facilities in important market centres. In the Punjab such accommodation is available in the towns. In 1927–28 and 1928–29, 32 towns had a storage capacity of 13 million tons and only 4 million tons were stored there.[1] In the villages, however, storage accommodation is generally primitive in character. The amount offered for storage in villages would often be too small to justify the erection of godowns either by the commercial banks or by co-operative sale agencies.

The Central Provinces Banking Inquiry Committee deplored the absence of any storage facilities at most markets, as a result of which sellers have often to dispose of their produce on the day of arrival. The Bengal Jute Inquiry Committee came to the conclusion that one of the reasons for the hasty sale of crops by the cultivators was the lack of godown accommodation where crops could be kept for any length of time. In

[1] *Punjab B.E.C. Report*, p. 61.

the Madras Presidency there is the same dearth of accommodation and the Central Banking Inquiry Committee came to the conclusion that the charges for storage accommodation realised by co-operative agencies were generally high owing to the high cost of construction of godowns and their utilisation for only a few months of the year.[1] In the United Provinces

> "the existing methods of storage are primitive. The peasant according to his need, keeps his grain in earthen pots, in sacks, in bins, or enclosure made of matting, mud and wickerwork, in large earthen cylinders, in a spare room or (where the water level is low) in underground pits. . . . Storage accommodation in the market differs from village storage in degree rather than in kind."[2]

The problem of storage of crops is therefore one of outstanding importance, and must be tackled in the near future. The Government of Madras have often granted advances to the co-operative loan and sale societies for the construction of godowns. A loan of about Rs. 15,000 was granted to such societies during 1927–29.[3] The conditions under which these loans are granted to sale societies in the Madras Presidency are laid down by the Co-operative Department.[4] Societies are eligible for loans up to 50 per cent of the cost of erecting a godown subject to a maximum of Rs. 2,500. Plans and estimates must be approved by the Registrar. The loan, together with the accrued interest, is repayable by equated annual instalments which may extend over a maximum period of thirty years. The Registrar

[1] *C.B.E.C. Report*, p. 221.
[2] *U.P. Banking Inquiry Committee Report*, p. 163.
[3] *Reports on Working of Co-operative Societies, Madras*, 1927–28 and 1928–29.
[4] Hemingway, *Madras Co-operative Manual*, 1930, p. 151.

is given the power to insist that the godown shall be insured against the risk of fire. In March 1936 a Conference was held in Madras of select Deputy Registrars and a few non-officials interested in the development of co-operative marketing. The Conference came to the conclusion that want of proper godown facilities in suitable centres was a great handicap to the ryot in marketing his crop, and generally to the progress of loan and sale societies. The Conference requested the Government to construct godowns at suitable centres at their own cost, and let them out to loan and sale societies at reasonably low rents. In this connection the suitability of setting apart a certain sum of money out of the Government of India grant for rural uplift work may be suggested. No provision is more calculated to increase the staying power of the ryots than storage facilities in rural areas, and any sums that may be spared for this purpose will be well spent.

Storage accommodation can also be increased by the provision of licensed warehouses on the American plan. The receipts granted by such warehouses are accepted as good collateral by banks furnishing the loan. The warehouses do not release the products unless the receipt is surrendered, and the receipt is held by the bank as long as the loan remains unpaid. The establishment of such warehouses under the authority of the Federal Government in the U.S.A. was facilitated, among other measures, by the U.S. Warehouse Act, 1916.[1] This Act provides for the enforcement of proper storage, inspection of warehouses and careful control of the use of warehouse receipts. The Act of 1916 originally applied to cotton, grain, wool and tobacco. But later amendments empowered the Secretary for Agriculture to

[1] Clark and Weld, *Marketing of Agricultural Products*, p. 317.

apply the Act to many other products.

The establishment of such warehouses is likely to benefit the grower in a number of ways. In the first place, the supply of loanable fund in the hands of the *mahajan* or sale society or a commercial bank is likely to increase, for the agency that supplies credit will be in a position to supplement its funds by the transfer of warehouse receipt, which is a negotiable instrument of title. A necessary corollary to the introduction of the warehouse is the inauguration of the grading system. When such grading is introduced the producer will find that his profits increase, due to an improvement in the quality of the product. The ryot is also likely to benefit from the use of correct weights.

These advantages are no doubt substantial. But it must be conceded that the question of the provision of licensed warehouses is more important for the development of commercial banking than for co-operative marketing. Our co-operative marketing societies have not yet reached such a stage of development as to be in a position to use the facilities likely to be provided by licensed warehouses. Until such time as the Indian co-operative marketing societies reach the position attained in the U.S.A., it will be futile to expect that they will derive any benefit from undertakings of this kind. But if the commercial banks take a more prominent part in the financing of crops they are likely to find licensed warehouses useful.

Standardisation

Proper standardisation, grading and marking are essential to any scheme of effective marketing. The object of such standardisation is to give permanence to grades so that there may be no dispute between

parties as to what is implied when a particular grade is mentioned in a contract. It is therefore imperative that standardisation, if any, must be such as to inspire public confidence. The standard may be established either by Government or by the trade concerned. The attempt by the trade in establishing grades has often ended in failures. In South Africa two Fruit Exchanges tried to establish grades, but met with very little success. In New Zealand the Fruit Control Board attempted to control grading and marking by producers. But little or no success was achieved in this line.

It is therefore imperative that the Government should take the initiative in the matter of fixing standards just as the Governments of Great Britain and the U.S.A. have done.[1] The Agricultural Produce (Grading and Marking) Acts, 1928 and 1931, in Great Britain provide for the use of the "national mark" if certain conditions laid down by the Government are fulfilled. The Minister of Agriculture and Fisheries is empowered to prescribe grade designations, *e.g.* "selected", "extra-selected" and grade designation marks, for any agricultural product. Under the Acts of 1928 and 1931, when an article is sold with a grade designation or grade designation mark, it is regarded as one of the essential conditions of the contract of sale that such an article should reach a prescribed standard. In regard to vegetables, national mark schemes have been inaugurated with regard to such articles as cauliflower, broccoli, Brussels sprouts, asparagus and rhubarb, carrots, etc. In the U.S.A., under the Grain Standard Act, 1916, and the Cotton Standard Act, 1923, the Federal Govern-

[1] Action has already been taken along these lines in India. The passing of the Indian Agricultural Produce (Grading and Marking) Act, 1937, and the recognition of "Agmark" will facilitate grading.

ment have laid down the standards for the use of trade. The use of these standards is compulsory for traders in inter-State and foreign commerce. With regard to many other commodities the Federal Government have prescribed standards which are optional. In 1929 there were as many as 89 federal standards in use in the U.S.A.

The question of fixing standards for many of the staple agricultural products has been engaging the attention of the Government of India for some time past, and it appears some progress in this direction has already been made. With regard to wheat, the possibility of uniform standards has been discussed with a number of representatives of the grain trade, and substantial agreement has been reached. The problem of standards is also being pursued with regard to such articles as leather, eggs and fruit.[1] The Advisory Board of the Council of Agricultural Research have arrived at a set of conclusions which, from the very nature of the case, must be tentative. Grade tests have also been carried out with regard to such articles as rice, paddy, groundnuts, tobacco, hides, *ghee*, linseed and different vegetable oils. But the work of standardisation should be taken in hand by an *ad hoc* body, if necessary, and standards fixed for all staple crops of this country.

[1] Lord Linlithgow's speech; *vide Statesman*, August 29, 1936.

CHAPTER VII

PRODUCTION AND MARKETING SOCIETIES

A STUDY of the history of the co-operative movement in Europe will show that successful co-operative credit both precedes and stimulates co-operation in other lines. In Europe the most complete systems of co-operative purchase and sale are actually built upon an efficient system of personal credit. In India, though the importance of developing the non-credit side of the movement has often been emphasized, the progress so far attained has been insignificant. In 1935 the number of societies in Bengal specialising in the production and marketing of goods on co-operative lines numbered less than 1000 with only 46,000 members and a working capital of Rs. 30 lakhs, as against agricultural credit societies numbering more than 19,000 with 4½ lakhs members and a working capital of nearly Rs. 6 crores. Joint sale and joint production require for their success a high degree of co-operative spirit, discipline and loyalty — qualities which are not abundant in any country, least of all in India. It may be asserted with confidence that successful working of rudimentary societies like village banks furnishes the preliminary experience necessary for the establishment of more complex organisations such as production and sale societies. The building of a system of co-operative production cannot be accomplished overnight. It must evolve out of a recognised need and an understanding on the part of the producer — be he an agriculturist or

an artisan — of the problems of organisation and management, of finance and merchandising. Any attempt to force the pace in the realm of co-operative marketing must ultimately defeat its own end.

As early as 1911 the Co-operative Department in Bengal realised the very important part that well-organised marketing societies might play in the rural economy of the province. This is evident from the following observations of the Registrar in 1911:

> "Next to credit a co-operative sale organisation is what Bengal most requires, because at present the agriculturists do not get the full value of many of their crops. Jute at once suggests itself as a subject for experiment."

But no serious attempt in this direction could be made until the passing of the Act of 1912 which laid the foundations of different forms of co-operative endeavour other than credit. The pioneer work, however, was done before 1912 by a number of societies, prominent amongst which were the Bharenga (Pabna) Weavers' Stores, the Dacca Dairy Society and the Kalimpong Cardamom Sale Society. The Bharenga society used to purchase yarn at wholesale rates at the Calcutta market and sell the cloth manufactured by members. The society was well established in 1912. But its career was cut short by river erosion. As the village itself was washed away, the society came to an end, and the weavers dispersed in different directions. The working of the sale society at Kalimpong did not justify the establishment of a registered co-operative society. The Dacca Co-operative Dairy Society was started in 1911 by a few merchants and professional men to supply good milk. But the society failed to make good in spite of the patronage of the Government

House at Dacca. Owing mainly to excessive expenditure on establishments and an unexpected cattle mortality, the society incurred heavy losses. For a time the difficulty was tided over by converting the society into a purely distributive organisation. Its livestock was sold, and the society began to buy milk from the cultivators and sell it to its clients. But even in this new form the society could not survive long, for it went into liquidation in 1921. By 1915–16, societies having for their object co-operative production or sale numbered 31 with a membership of over 700 persons and a working capital of about Rs. 42,000. Although these societies were not numerous they were nevertheless important as pioneers in their own field, contributing to the experience gathered, and widening the co-operative horizon in the rural areas of the province. These societies may be divided into two broad classes: agricultural and non-agricultural. Amongst the agricultural societies may be mentioned jute and paddy sale societies, milk societies and the society for the co-operative cultivation of *ganja*. In the non-agricultural group are included a large number of organisations such as cotton weavers' and silk spinners' societies, fishermen's societies, artisan societies such as bell metal workers' and toy makers' societies, etc. These societies, whether agricultural or non-agricultural, conform to two different types. Some of these combine production with marketing, while others confine their activities to marketing alone. The first type is known in current Indian official literature as a "production-and-sale" society while the latter is called a "purchase-and-sale" society. Taken as a whole these societies are not numerically very large. But the extent of the field of co-operative marketing covered by them is rather wide. It is, therefore, necessary to limit the

discussion of different phases of their activities. It will be convenient to begin with a brief account of the principal forms of agricultural marketing societies.

Agricultural Marketing Societies

The development of agricultural purchase and sale societies during 1915–36 will appear from Table I given below:

TABLE I

PURCHASE AND PURCHASE-AND-SALE SOCIETIES *

(Agricultural)

Year ending June of —	No. of Societies	No. of Members	Sales of Goods, Rs.	Purchase of Members' Products, Rs.	Cost of Management, Rs.	Working Capital, Rs.	Share Capital, Rs.
1915	2	44	629	..	11	919	119
1916	3	68	1,923	..	49	849	216
1917	6	84	4,905	4,451	148	2,071	311
1918	12	1,971	41,324	31,136	3,684	23,576	9,734
1919	5†	2,628	82,260	69,198	3,115	67,676	17,684
1920	7	3,645	2,39,146	57,900	3,397	79,010	25,786
1921	11	3,640	1,49,037	341	6,009	1,34,943	26,413
1922	15	3,834	1,45,919	7,600	5,746	1,36,214	29,546
1923	21	4,147	1,44,441	..	4,817	1,54,641	31,486
1924	22	4,441	1,75,439	1,08,620	6,006	1,56,161	31,343
1925	33	5,337	2,96,183	1,65,847	12,295	94,419	35,518
1926	53	9,565	4,41,153	2,49,216	17,284	2,34,828	1,39,612
1927	78	20,553	34,52,167	35,21,555	96,010	8,91,844	3,22,920
1928	85	26,867	56,19,528	55,80,611	2,90,599	18,74,501	4,09,071
1929	100	28,982	82,20,361	87,18,138	4,89,038	37,15,741	5,68,641
1930	108	31,606	77,13,193	79,94,917	3,24,487	48,26,012	7,43,063
1931	95	12,935	5,37,722	4,74,823	47,403	7,13,271	2,71,423
1932	89	12,394	4,75,144	3,96,729	42,476	6,81,627	2,53,145
1933	85	11,468	3,82,814	3,19,913	51,589	6,61,249	2,47,974
1934	74	9,365	2,17,887	1,20,490	28,630	5,59,304	1,91,198
1935	80	13,693	2,30,771	1,69,434	30,653	7,94,395	2,16,897
1936	73	13,510	2,22,398	1,33,254	27,260	7,80,289	2,32,755

* This table includes societies having for their object joint purchase of goods by members.

† This shrinkage in number is due to the fact that the milk societies were henceforth excluded, and were shown under production-and-sale societies.

It will be seen from this table that the most eventful period in the history of the development of these

societies was 1924–30. During this period the number of societies increased from 22 to 108 and the value of goods sold rose from Rs. 1¾ lakhs to a little over Rs. 77 lakhs. This striking development was largely due to an earnest effort made by the Co-operative Department to organise marketing of jute on co-operative lines.

Jute and Paddy Sale Societies

We have already seen that as early as 1911 jute engaged the attention of the authorities as affording a promising field for experiment. The intermediaries engaged in the sale of jute are more numerous than those in any other crop, such as paddy. This is principally due to the value of the crop and the special process of baling which is peculiar to jute. Between the cultivator and the export merchant or the mill there may be as many as four agents, such as the *faria*, *bepari*, *aratdar* or *mahajan*, and the baler. The *faria* is a dealer who buys small quantities from the cultivator and sells to the *bepari*. The *bepari* is financed by the *mahajan* or the *aratdar*, and the latter takes the jute to the baler. Various commissions are charged by these intermediaries, who not infrequently make large profits by the manipulation of the scales.[1] Agricultural purchase-and-sale societies which handled paddy soon began to take up the sale of jute on co-operative lines, *e.g.* the Dewangunj (Mymensingh) Society in 1918–19. But on account of mismanagement and dishonesty of the paid officials,[2] the members lost all faith in this institution and curtailed their transactions. This society finally went into liquidation

[1] *Vide* Evidence of Mitra and Finlow, *Royal Commission on Agriculture*, vol. iv.

[2] The official in charge of the society speculated on his personal account in jute and debited the loss to the society.

in 1922.[1] The speculative element in the price of jute, the problem of credit sales and opposition from powerful vested interests, all combined to put obstacles in the way of the establishment of new societies. Another problem was the necessity of handling a large volume of goods and of making satisfactory arrangements for their storage. But this involved the question of finance as also that of honest and efficient management. To overcome these obstacles societies were started with adequate capital, and some of them, *e.g.*, the Chandpur Society, acquired extensive godowns, set up pressing machines, and purchased steam launches and engaged a number of boats for quick transport of jute. Competent managers were also appointed, a good standard of assortment was guaranteed, and packing was done under proper supervision. The immediate results were satisfactory, and some of the societies were able to establish their marks with the mills. In the doubtful atmosphere in which these societies were started this preliminary success was sufficient to inspire confidence, and a fairly large number of societies came into existence each year during the period 1925–29. Prominent among the societies which did business on a large scale were those at Sonatola, Chandpur and Sarisabari. With a view to establishing contact with the Calcutta jute mills, the jute sale societies were federated in 1926 into a central organisation in Calcutta known as the Bengal Wholesale Co-operative Society, Ltd. Thanks to the efforts of this society, the packing of co-operative societies came to be recognised by the Calcutta jute mills as equal to the best European packing. Whole-time superior officers worked at the Calcutta head office and an experienced *mufassil* inspector was appointed to supervise closely

[1] *Report on the Working of Co-operative Societies, Bengal*, 1922–23, p. 9.

the standard of assortment in the rural districts.

But the career of these societies was cut short by the slump of 1929. In 1929–30 the societies with their union, the Bengal Co-operative Wholesale Society, were placed under liquidation entailing heavy loss to the Bengal Provincial Co-operative Bank, which had largely financed the purchase of jute.

With the liquidation of jute sale societies practically the only purchase-and-sale societies left in the province were the paddy sale societies. Of the pioneer societies that attained some degree of success mention may be made of the Sundarban Supply and Sale Society at Khepupara (Bakargunj district) and the Gosaba Paddy Sale Society. The first-named society showed an expanding business. It erected in 1920 a godown with a capacity of 40,000 mds. with a view to storing paddy and holding it for better price. The society was described as a veritable boon for nearly 3000 families. In spite of sporadic cases of success, the sale societies dealing with paddy entered on a difficult period during 1920–25 due to the steady fall in the price of rice. The following table will show the price of rice in the Calcutta market during 1920–29:

TABLE II

Year	Index No. of Price of Rice (1873 = 100)	Ballam Rice per Md. (Calcutta Average Wholesale)
1920	447	9–8–0
1921	385	8–3–0
1922	335	7–2–0
1923	301	6–6–6
1924	279	5–15–0
1925	394	8–6–0
1926	356	7–9–0
1927	385	8–3–0
1928	359	7–10–0
1929	300	6–6–0

Up to the middle of 1925 there was a steady downward trend of prices and the paddy sale societies, extremely sensitive to price changes, showed dwindling profits. This downward tendency was, however, arrested during 1925–29 and the societies began to show signs of vitality. With better prices it was found possible to effect various improvements in their organisation. The Bengal Co-operative Organisation Society started in April 1926 a central rice godown in Calcutta. Next year the sale depôt was converted into a central paddy sale society on a co-operative basis. The main function of this society is to guide the activities of the *mufassil* societies and to furnish a link between the Calcutta market and the *mufassil* societies. With the general collapse of prices in 1929 disaster overtook the paddy sale societies along with the jute sale societies already referred to. This is clearly reflected in the abnormal shrinkage in the volume of business indicated in Table I. The value of goods sold to members came down from Rs. 77 lakhs in 1930 to Rs. 5 lakhs in 1931, while in 1935 it further dwindled to a little over Rs. 2 lakhs.

The working of the paddy sale societies illustrates that the profit accruing from what is known as *aratdari* (storing and selling) business is not large in normal years. Except when the grower is getting abnormally low price for his produce, the returns per unit of commodity are not generally such as to compensate a sale society for high cost of management and interest on borrowed capital. For it must be remembered that these societies are mainly financed by means of loans from central banks and the provincial bank, as Table III (p. 220) will show.

In the circumstances the volume of business must be sufficiently large to make this kind of business

TABLE III

Purchase and Purchase-and-Sale Societies (Agricultural)

Year	Loans due — By Individuals, Rs.	Loans due — Of which Overdue, Rs.	Loans due by Banks and Societies, Rs.	Loans and Deposits held at the End of the Year (excluding those received and paid back) from — Members, Rs.	Non-members, Rs.	Societies, Rs.	Provincial and Central Banks, Rs.	Government, Rs.	Profit and Loss for the Year, Rs.
1925	225	..	..	1,167	20,726	17	18,891	3,600	+17,761
1926	24,046	1,740	77,508	14,588	7,079	1,258	37,347	3,200	+15,282
1927	33,065	..	20,019	30,789	6,215	760	4,98,663	3,600	−54,918
1928	79,817	8,000	45,696	23,303	13,063	497	13,74,634	3,200	−4,20,093
1929	1,01,734	17,823	45,218	23,695	9,039	23,019	30,28,145	4,400	−1,84,579
1930	36,208	11,810	97,287	15,788	36,974	14,895	39,36,492	3,600	−12,91,236
1931	67,720	29,563	78,680	16,363	13,395	9,386	3,25,613	1,800	−65,586
1932	89,171	30,377	77,912	12,508	15,778	3,315	3,16,033	1,600	+2,501
1933	94,126	65,693	88,783	13,050	22,471	3,860	2,89,614	1,200	−4,542
1934	57,012	55,358	33,963	16,338	10,322	2,750	2,72,642	400	+9,202
1935	63,450	56,761	83,596	28,940	1,891	1,32,373	2,74,558	200	+12,180
1936	57,969	53,060	52,583	8,179	9,699	1,19,643	2,72,882	..	+6,039

remunerative. The figures relating to the profit and loss given in Table III indicate that, taken as a whole, the societies have not been financially successful.

There is one other aspect of the working of paddy sale societies which demands more than a passing notice: Reference has been made in a previous chapter to the desirability of linking up credit and sale societies. As early as 1922 the Co-operative Department in Bengal conceived this plan with a view to facilitating a better working of both types of societies. The Registrar remarked as follows: [1]

> "The sale societies should . . . be in a position to have some command over the members' crops. To secure this object it is proposed that members of a credit society in the area of operations of a sale society should arrange to hand over their produce to the sale society and get credit for its value at the market rate in the accounts of their own society, any loss or profit accruing from the transaction being also entered in their account."

This arrangement was likely to prove advantageous both to the credit society and the borrower. The former was assured against the risk of default by the borrower, while the latter would no longer be forced to sell his produce at an inconvenient time to pay his *kists* (instalments). Though this plan of co-ordinating the activities of credit and sale societies was conceived in Bengal as early as 1922, no steps were taken to carry it out. But it appears that other Indian provinces have taken the lead in this matter, and their experiments, though not free from difficulties, have met with a considerable measure of success.[2]

[1] *Report on the Working of Co-operative Societies, Bengal*, 1922–23.

[2] *Proceedings of the Twelfth Conference of Registrars of Co-operative Societies*, December 1936, pp. 6-12.

Milk Societies

It is a universal experience that co-operation is least successful in the realm of production. While most nations have made a success of co-operative credit or of purchase and sale, very few countries can boast of flourishing co-operative ventures in the domain of production. But in this province exceptional circumstances have favoured the growth of a few prosperous production-and-sale societies. These are the milk societies and the monopolistic organisation for the cultivation of *ganja* (hemp). The development of these production-and-sale societies classified under the agricultural group will appear from the table given below:

TABLE IV

PRODUCTION-AND-SALE SOCIETIES

(Agricultural)

Year ending June of—	No. of Societies	No. of Members	Sales of Goods to Members, Rs.	Purchase of Members' Products, Rs.	Cost of Management, Rs.	Share Capital, Rs.	Working Capital, Rs.
1918	4	2,741	4,502	5,68,069	11,616	42,631	2,63,912*
1919	23	3,556	32,862	4,80,590	22,190	42,238	6,97,232
1920	44	4,758	8,41,495	3,44,478	36,135	42,926	6,15,198
1921	44	5,241	9,19,611	6,51,966	92,722	44,015	4,18,343
1922	50	5,512	9,99,624	7,13,754	77,480	33,489	6,18,215
1923	55	5,284	11,49,783	6,12,494	67,304	35,652	5,78,575
1924	58	5,819	11,04,869	6,94,697	77,624	43,884	7,74,038
1925	69	6,637	12,43,181	6,06,198	84,421	47,100	6,04,662
1926	78	7,379	10,20,386	7,34,656	1,19,669	50,344	5,72,834
1927	101	8,120	1,55,677	6,93,311	1,21,159	55,808	5,59,569
1928	126	9,201	2,87,913	8,28,153	1,29,360	59,257	7,84,400
1929	172	10,737	2,71,675	7,04,184	1,26,689	66,069	7,19,754
1930	245	12,369	3,85,687	4,55,799	1,36,800	71,722	8,52,109
1931	267	13,331	3,74,718	7,64,962	1,37,735	75,469	9,76,001
1932	270	13,929	3,43,310	5,77,302	1,58,732	76,781	9,58,289
1933	272	14,384	2,85,152	5,19,926	1,40,502	77,288	9,61,766
1934	267	14,062	2,14,788	4,46,543	1,26,482	74,981	7,91,650
1935	250	13,733	1,82,095	3,47,465	1,12,329	72,521	9,46,280
1936	246	13,768	1,90,822	3,51,629	90,645	72,377	9,01,659

* Of this Rs. 2,12,950 was received from Central or Provincial Banks as loans.

In 1935 out of 250 societies belonging to this group milk-societies numbered 247. They are federated into five unions, of which the largest is the Calcutta group with a working capital of more than Rs. 1½ lakhs. The other unions, *e.g.* those at Dacca, Chittagong, Naogaon and Darjeeling, are comparatively unimportant with working capital ranging from Rs. 5,000 to Rs. 72,000. In 1935 the Calcutta Union sold milk valued at Rs. 3,37,000 which it had purchased from members for a little over Rs. 2 lakhs. In spite of this wide margin between the purchase and selling price, it was hardly in a position to declare any dividend to the member societies. This was principally due to the high cost of management, amounting to Rs. 1,11,023. Table V given below indicates the progress of the Calcutta Co-operative Milk Societies Union, Ltd., during 1925–36 :

TABLE V

CALCUTTA MILK UNION, 1925–36

Year ending June of —	No. of Societies	Total Working Capital, Rs.	Purchase of Goods from Members, Rs.	Sale of Goods to Non-members, Rs.	Profit and Loss, Rs.	Cost of Management, Rs.	Average Quantity of Milk handled Daily, mds.
1925	63	67,639	1,75,280	2,35,762	+20,146	30,854	83
1926	71	1,17,961	3,36,661	4,10,427	+21,200	36,750	103
1927	82	2,32,707	3,67,556	4,72,146	+22,168	39,256	110
1928	93	1,88,330	4,16,809	5,63,886	+23,545	42,792	*
1929	103	1,84,226	4,49,273	6,22,769	+25,193	52,905	*
1930	107	1,75,876	4,65,889	6,40,741	+20,172	1,25,514	*
1931	113	2,52,660	4,25,810	6,09,955	+18,589	1,37,128	142
1932	117	2,13,559	3,56,965	4,95,247	− 2,699	1,42,422	134
1933	120	1,48,872	2,82,435	4,25,626	+3,522	1,18,818	115
1934	120	1,59,274	2,46,204	3,71,124	+283	1,16,701	106
1935	120	1,57,875	2,05,378	3,37,058	+256	1,11,023	93
1936	123	2,01,649	1,89,907	3,04,127	+765	1,04,066	97

* Figures for these years are not available.

The first milk society of the Calcutta group was started in April 1917 at Baraset. The success of this organisation was followed by the establishment of five

other societies in the next year, while in 1919 the number increased to nineteen. The members of these societies were agriculturists who had taken up the supply of milk as a subsidiary occupation. These co-operative milk societies secured for the agriculturists a high price for their milk in the Calcutta market, while the consumers were assured of a supply of pure fresh milk. The milk belonging to the various societies was originally brought to Calcutta in locked cans by agents of the respective societies, while a duplicate key was kept in Calcutta. It was felt that this precaution was necessary to ensure the purity of the milk supply. But the system of separate sales by contiguous societies was open to the obvious objection that it needlessly increased the cost of management. It was to remove this disadvantage that the Calcutta group of societies formed a co-operative union in 1919.

The establishment of this union marked an important stage in the history of the development of these societies. Besides reducing the working expenses, the union by its efficient management increased the reputation of the societies as purveyors of good milk and succeeded in securing contracts such as those for the supply of milk to the hospitals, leading clubs and hotels of Calcutta. It acquired plant and machinery for pasteurising and cooling milk and opened stalls in the markets of Calcutta, and made its influence felt in regulating the price of milk.

Very early in its career the union was confronted with the problem of maintaining an even supply of milk throughout the year. During the monsoon there was a tendency for the supply to fall off. This gave rise to a serious difficulty, as the union was bound by its contract with hospitals and clubs to supply milk throughout the year. The union tried to increase the

supply in rural areas by various means. Loans were granted to members of constituent societies to enable them to purchase good milchers, veterinary surgeons were employed to check cattle disease and arrangements made for the purchase of stud bulls to improve the breed of cattle. In 1920 a serious cattle epidemic brought to the forefront the problem of dealing with a contraction in the supply of milk. For a time the difficulty was tided over by the purchase of milk in the open market. But as it was high-priced and poor in quality, the union not only suffered heavy financial loss, but lost important customers, who cancelled their contracts. The union now realised that to minimise the dangers of cattle epidemic and to keep up the supply of milk it was necessary to distribute the societies over a wide area and to establish milk societies in regions where the conditions were such as to enable cows to thrive during rains. It is to the credit of the union that it renewed its activities within a short time and more than recovered the position it had lost.

The milk societies have demonstrated that it is possible to use co-operative methods in organising the milk supply of cities like Calcutta by tapping sources of supply outside the city.[1] Co-operative methods not only ensure purity of milk, but also afford a direct incentive to the cultivators by giving them a better price. If proper assistance is given in the shape of cold-storage vans and adequate and cheap transport facilities,[2] the

[1] Compare *Annual Report on the Working of Co-operative Societies, Bengal*, 1921–22.

[2] The following extract from the *Report on the Working of Co-operative Societies in Bengal*, 1918–19, will illustrate the difficulties under which the union had to work: "At the instance of the Honourable Mr. P. C. Mitter, Government sanctioned a grant of Rs. 13,000 for the purchase of lorries. . . . The Accountant-General, Bengal, has objected, and unless the Secretary of State's sanction is obtained it looks as if the Societies will have to pay for the lorries."

greater portion of the milk can be supplied by co-operative methods.

The milk societies of the Calcutta group owe their success mainly to the fact that they were started in areas within the reach of a large industrial city with a dense population. They were thus assured of a steadily increasing demand for milk at prices well above those prevailing in rural areas. They received little or no help from the Government in the shape of loans and subsidies or concessions of any kind. Far different is the case with the Naogaon Ganja (hemp drugs) Cultivators' Co-operative Society. Its success has been due entirely to the monopolistic right of trading in *ganja* and *bhang*. The *ganja* crop is sold by the society under Government licence and is grown in an area annually licensed by the Government. The purchase price is fixed by the society, while the Government fix the ultimate selling price. The society was started in July 1917 at Naogaon in the district of Rajshahi, and in the first year of its existence, thanks to the monopoly which it possessed, it was in a position to earn a profit of more than Rs. 5 lakhs. The society eliminated middlemen, who often used to intercept as much as Rs. 4 to Rs. 5 lakhs of profit. It also saved its members considerable sums in interest payments. Not only did it confer great benefit on members, but it was the parent of many successful co-operative societies in the locality. The Naogaon Central Bank was one of its offshoots. It set up a store for its members and employed a veterinary surgeon for the treatment of cattle belonging to its members. The progress of the society during 1925–36 will be apparent from the table given opposite:

TABLE VI

NAOGAON GANJA CULTIVATORS' CO-OPERATIVE SOCIETY

Year ending June 30	No. of Members	Share Capital paid up, Rs.	Working Capital, Rs.	Value of Members' Products Purchased, Rs.	Profit and Loss, Rs.
1925	3681	41,310	5,75,635	4,83,038	+2,28,512
1926	3694	42,420	5,26,396	6,07,251	+2,38,585
1927	3747	44,940	4,88,620	5,74,337	+2,28,418
1928	3770	44,300	6,86,514	5,98,680	+1,63,052
1929	3914	45,640	5,91,304	4,85,102	+1,55,552
1930	3906	45,660	6,72,485	1,35,761	+94,531
1931	3845	45,150	7,75,142	4,49,502	-98,226
1932	3844	45,040	7,61,996	3,06,980	+52,543
1933	3845	45,050	7,62,520	2,84,563	+83,518
1934	3845	43,790	6,00,325	2,74,565	+1,04,728
1935	3614	42,710	7,58,940	2,01,110	+80,319
1936	3588	42,590	7,18,814	2,00,797	+60,189

It will appear from this table that, although the extent of its profits has varied from year to year, it has not incurred any loss except during the year 1931. This prosperous condition of the society has enabled it to devote a part of its profits to works of public utility such as schools, hospitals and roads, and to make liberal donations on several occasions for the relief of the flood-stricken people.

Non-agricultural Marketing Societies

The marketing societies included under the non-agricultural category form a heterogeneous group chief amongst which are consumers' stores, artisan societies, fishermen's and weavers' societies. It will be convenient to examine the origin and working of these societies in the order named. But before doing so it is necessary to point out that the classification of societies into agricultural and non-agricultural groups lacks scientific precision and is not formally correct. For there are areas in which almost the whole population is absorbed

in handloom weaving and other subsidiary occupations as their principal source of livelihood, but always with some stake in land and agriculture as a source of food supply.[1] Similarly there is not always a sharp line of demarcation between agricultural sale societies such as those for paddy and non-agricultural sale societies. Many of the existing consumers' stores began their career as adjuncts of agricultural purchase and sale societies. In 1926, for instance, the Khelar Paddy Sale Society opened a stores branch dealing mainly with cloth. The Sunderban Paddy Sale Society did hardly any paddy business in 1923 and almost the whole of its activity consisted in working as a store.

Consumers' Stores

The following table will show the development of co-operative stores in Bengal during 1920–29:

TABLE VII

CONSUMERS' STORES, 1920–29

Year	No. of Societies	Price Index (1873 = 100)	Volume of Business (Sales) in Lakhs of Rupees
1920	65	281	10·2
1921	90	236	12·5
1922	80	232	9·1
1923	76	215	7·9
1924	69	221	6·7
1925	71	227	4·7
1926	57	216	3·8
1927	55	202	5·3
1928	58	201	4·7
1929	69	203	5·4

It will appear from this table that there was a fairly large increase in the number of co-operative stores

[1] Bulletin on Bankura District, Bengal Board of Economic Inquiry, 1935.

during 1920–21. This was due to the prevailing high prices and the belief that most of the tradespeople were profiteering. Stores were therefore started in a hurry, not always under favourable conditions. It was therefore not surprising that the Registrar should remark:

> "In most of them management was hopelessly bad, co-operation was absent, members were disloyal, credit was too freely given, reckless attempts to undersell the market were being made and every defect that could exist in such societies was common."

A circular was accordingly issued by the Co-operative Department enumerating the essential principles which must be followed by all stores if failure was to be avoided. It was emphasized that in no circumstances

TABLE VIII

CONSUMERS' STORES, 1929–36

Year ending June 30	No. of Societies	Sale of Goods in Lakhs of Rupees	Profit and Loss, Rs. (thousands)	General Index Number of Prices (1929=100)*
1929	69	5·4	+8·4	100
1930	56	3·9	−17·1	85
1931	55	3·8	−1·3	63
1932	54	2·8	+0·03	63
1933	55	2·6	−7·7	60
1934	53	2·4	+1·7	59
1935	43	2·6	+2·2	63
1936	44	2·4	+2·7	62

* Calculated from "Index Number of Indian Prices".

should profits be taken for granted and rebates given to members in anticipation of such profits. It was also necessary to avoid borrowing from outsiders so as to make the stores financially independent. In order to provide sufficient capital for business, members were expected to keep their rebates as deposits with the

stores. A stores manual was prepared prescribing a simplified system of book-keeping and suggesting checks and safeguards against the dishonesty of the staff. Notwithstanding these efforts the societies failed to make good, due mainly to unrestricted credit sales and lack of proper supervision. With the advent of the depression in 1929 these societies, which have always constituted a weak element in the movement, began to show signs of decadence. This will appear from Table VIII (p. 229).

Exceptional circumstances explain the success of a few stores, but the results achieved in most cases do not indicate that distributive co-operation has come to stay.

Production-and-Sale Societies

If such is the condition of distributive co-operation, which remains essentially an urban movement, one is not surprised at the lack of strength and vitality shown by production-and-sale (non-agricultural) societies of which the membership is confined to artisans, fishermen and weavers. Table IX will show the growth of these societies during 1915–36.

Some of these are very small concerns and have little or no importance either as pioneers in their own special field or in respect of any contributions they make in solving the fundamental problems of co-operative production. Their volume of business as well as working capital is small and their profits, if any, are insignificant. The relevant facts regarding this minor group of industrial co-operative societies are summarised in Table X.

TABLE IX

Production-and-Sale Societies (Non-agricultural)

Year ending June of —	No. of Societies	No. of Members	Sales of Goods to Members, Rs.	Purchase of Members' Products, Rs.	Cost of Management, Rs.	Share Capital, Rs.	Working Capital, Rs.
1915	11	376	6,956	..	7,124	12,982	32,404
1916	26	518	6,762	..	3,249	11,681	37,660
1917	66	1,131	8,054	258	2,798	12,198	80,830
1918	95	1,247	16,105	10,485	2,262	1,736	62,395
1919	136	1,995	8,313	5,791	1,824	3,018	85,728
1920	164	2,476	14,016	5,079	1,807	5,628	82,775
1921	188	2,653	18,986	3,668	3,997	10,177	1,08,813
1922	197	2,885	36,133	4,393	14,323	12,910	1,21,184
1923	232	3,523	42,163	16,917	3,039	19,151	1,61,977
1924	271	4,707	95,894	6,753	17,062	37,805	2,68,044
1925	308	6,232	78,790	16,667	24,267	51,346	3,47,155
1926	392	7,799	2,42,100	2,25,842	16,369	1,60,161	6,57,264
1927	456	9,400	2,30,405	1,51,228	18,374	1,82,660	7,59,395
1928	499	10,604	2,12,123	2,18,347	17,088	2,10,621	9,00,049
1929	528	10,744	2,09,321	1,68,544	23,157	3,03,153	10,56,354
1930	567	11,185	1,82,770	1,35,461	16,918	2,19,130	10,70,916
1931	582	13,284	1,13,689	55,860	24,020	2,33,361	10,76,444
1932	568	12,778	78,495	37,227	22,994	2,29,914	10,65,242
1933	559	12,284	64,297	13,892	16,053	2,34,380	10,99,535
1934	559	13,384	91,488	39,794	50,528	2,49,522	11,33,321
1935	552	13,229	93,628	17,428	43,720	2,54,858	11,32,557
1936	552	13,329	89,409	9,312	41,231	2,59,452	11,70,142

TABLE X

Minor Production-and-Sale Societies, 1935

Name	No. of Societies	No. of Members	Sales, Rs.	Working Capital, Rs.	Profit and Loss, Rs.
Braziers' societies	1	55	2,005	13,307	- 992
Conch-shell workers	13	293	..	1,93,309	- 4,229
Cocoon reelers	1	14	..	3,451	+76
Cocoon rearers	77	1214	..	91,764	- 475
Industrial workers	2	217	..	20,383	- 1,631
Mattress-makers	1	22	280	128	+37
Bell-metal workers	5	260	158	7,924	+133
Shoemakers	6	95	..	8,649	- 251
Lac-growers	3	69	..	11,980	- 18
Oil presses	1	14	..	665	+7
Blacksmiths	2	31	..	5,569	- 498
Carpenters	3	[illegible]	..	4,946	+50
Spoon-makers	1	8	..	710	+1
Toy-makers	1	10	..	126	+3
Pollers	1	30	..	1,394	+43
Rope-makers	1	38	262	27,016	+71
Sugar mills	2	1023	11,699	16,673	+819

Fishermen's Societies

The fishermen's societies also form a numerically small group today, although they have great potentialities. Of all the small producers perhaps no one is more subject to exactions at the hands of intermediaries than the fisherman of Bengal. An official inquiry regarding some of the river fisheries of Bengal conducted more than ten years ago estimated that in one particular fishery as much as 73·25 per cent of the total value of the catch was intercepted by *mahajans*, the fisherman receiving only 25 per cent. This is typical of the state of affairs prevailing in most of the fisheries. The co-operative fishermen's societies try to secure for the fisherman his legitimate share of the value of the produce. These societies owe their origin to the inspiration of Mr. Southwell, at one time Deputy Director of Fisheries in Bengal. The societies began by granting loans to members. But it was soon realised that it was necessary that fishermen's societies should secure for themselves leases of fishery rights and make their own arrangements for the disposal of the catches. The Government policy in regard to these societies was laid down as early as 1915.

> " One of the principal objects in view", declared a Government resolution on the subject, " is the lease of fisheries to societies of fishermen instead of to middlemen, and when this has been arranged the societies are confronted with the difficulty of disposing of the catch otherwise than through the middleman who used to intercept all profits."

But opposition of strong vested interests has prevented the societies from acquiring many such leases. To overcome this difficulty the Government of Bengal

decided in 1924 that the Registrar, Co-operative Societies, should be consulted by District Collectors before the expiry of any existing lease of a Government fishery, with a view to renewing such leases with co-operative societies. A few sympathetic district officers tried to carry out the Government policy, and granted leases to co-operative societies at concession rates. But there were others who were inclined to dispose of Government fisheries by giving them to the highest bidder. Even when leases were given to co-operative societies, they often experienced considerable difficulty in getting possession, and were dragged into protracted litigation with the zemindars or with rival bodies of fishermen.[1] Most of the fishermen's societies therefore continue to do credit business only.

The following figures will show the progress of these societies during 1925–35:

TABLE XI

FISHERMEN'S SOCIETIES

	Year ending June 30th of—		
	1925	1930	1935
No. of societies	60	105	103
Members	2,046	2,940	3,846
	Rs.	Rs.	Rs.
Sale of goods	33	1,878	31,575
Paid-up share capital	10,444	28,271	35,784
Working capital	63,250	1,34,433	1,95,732
Profit and loss	+10,759	+2,482	+8,658

Weavers' Societies

The weavers' co-operative societies stand altogether on a different footing alike in respect of numbers and their importance. Ever since the days of the Indian

[1] As examples may be mentioned the Nayanadi Society (Dacca), 1926; Ballavpur Society (Midnapur), 1929; and the Ekdala Society (Pabna), 1929.

Industrial Commission, 1916–18, the opinion has been expressed again and again that the only hope of the revival of cottage industries, particularly of hand-loom weaving, lies in co-operative methods. According to the census of 1931, 192,589 persons were returned in this province as deriving their livelihood from hand-loom cotton-weaving.[1] But out of this number only about 6000 persons belonged to co-operative weavers' societies in 1935.[2] A statistical inquiry conducted under the auspices of the Bengal Board of Economic Inquiry estimated that out of a total consumption of 848 million yards of cloth in Bengal, 185 million yards were produced by hand-loom workers. Co-operation therefore affords ample scope for the organisation of weavers, both for the supply of yarn to the weavers and for the disposal of their finished products. Between the Calcutta manufacturer of yarn and the consumer of yarn there are found interposed as many as two or three intermediaries, who use their superior bargaining strength much to the disadvantage of the weaver. Credit is freely granted by the *mahajan*, and once the weaver is in the toils of the *mahajan*, who is the yarn dealer, the weavers' dues go on steadily mounting. When the finished products are disposed of through the yarn dealer, the value of the goods is almost invariably under-estimated. Thus the weaver suffers losses at both ends of the transaction.

It was to remove this handicap that co-operative weavers' societies were started. In 1916 there were only 13 such societies in the province. In 1925 the number of societies was 199. The progress of these societies during 1925–36 is shown in the table given opposite.

[1] *Census of India*, 1931, vol. v. Part I. p. 275.
[2] *Report on the Working of Co-operative Societies, Bengal*, 1934–35.

TABLE XII

Co-operative Weavers' Societies, 1925–36

Year ending June of—	No. of Societies	No. of Members	Sale of Goods, Rs.	Purchase of Members' Products, Rs.	Cost of Management, Rs.	Share Capital paid up, Rs.	Working Capital, Rs.	Profit and Loss, Rs.
1925	199	3334	67,113	57	18,225	31,934	1,78,596	+4,721
1926	228	3938	1,28,619	1,20,081	6,560	40,192	2,46,553	+2,936
1927	254	4318	87,365	32,262	9,282	57,266	2,97,672	−7,929
1928	269	4829	52,525	52,314	6,645	63,349	3,64,065	−1,075
1929	287	4647	18,605	15,269	3,059	40,527	3,21,924	+8,975
1930	313	5390	55,804	16,339	3,846	72,452	5,09,143	+18,927
1931	338	6145	55,365	10,771	5,062	75,522	4,98,466	+4,175
1932	333	6064	34,064	5,705	5,019	75,836	5,10,741	+4,963
1933	327	5811	53,928	7,893	6,216	77,434	5,23,712	+8,036
1934	328	5887	62,064	37,534	8,596	80,444	5,32,039	+11,487
1935	323	5908	47,649	3,054	6,906	83,587	5,28,831	+9,375
1936	323	5725	47,662	207	6,854	85,500	5,41,715	+4,525

The object of these societies was to buy raw materials at wholesale rates and to undertake the sale of finished products. But the societies acting singly found it difficult to get the advantage of wholesale rates in respect of the yarn they bought. As for the disposal of the finished products, a wide local market was not available, while transport to important consuming centres was far too expensive. The societies had further to face opposition from local dealers.[1] It was to overcome this difficulty of marketing that a Calcutta depôt was started under the direct supervision of a weaving inspector. But this method of disposal of finished products proved a failure, and other means had to be devised. The weaving societies were then federated into district unions alike for the supply of raw materials and for the disposal of the finished products. The first of the series of district unions was the Bankura District Co-operative Industrial Union,

[1] It is recorded that in the case of one society a local silk dealer actually followed a member who was taking the products of a co-operative society to Calcutta, and there attempted to undersell the society even at a loss. See *Annual Report on Co-operative Societies, Bengal*, 1915–16.

Ltd., which was registered in 1918. This was soon followed by the establishment of other unions in 1922,[1] *e.g.* those at Dacca, Nadia, Chittagong and Satkaniya (Chittagong). In 1935 there were seven such district unions[2] in the province. The process of unification of societies into larger units was carried further when the Bengal Provincial Co-operative Industrial Society, Ltd., was inaugurated in 1929. The society is a federation of all district industrial unions and of all primary industrial co-operative societies not affiliated to industrial unions. It was expected that the formation of this society would put an end to many of the difficulties which had been experienced by the unions in course of their operations. But the Provincial Society too was hardly successful in achieving the principal object for which it was set up, and till 1934 almost the whole of its activity consisted in the maintenance of a sale depôt in Calcutta in which the goods of industrial societies were exhibited for sale. During the first two years of its existence it received a subsidy of Rs. 12,000 a year for propaganda work. But the grant was discontinued in 1931.[3]

It is difficult to make any general statement in regard to the manner in which district unions operate in relation to primary societies. Some of the primary societies work on a credit basis. They obtain the necessary capital from the unions for the purchase of yarn and make their own marketing arrangements. Others obtain from the unions their supply of yarn, which is worked up by weavers according to specifications. The finished products are taken over by the

[1] *Report on the Annual Working of Co-operative Societies, Bengal,* 1922–23.

[2] They were established at Bankura, Dacca, Chittagong, Choumuhani (Noakhali), Raipur (Noakhali), Naogaon (Rajshahi) and Malda (Silk Union).

[3] *Proceedings of the Sixth Industries Conference,* 1934.

unions after paying the societies wages according to a fixed scale.

Under this plan, known as the "*bani* system", the weavers are thus reduced to the position of mere wage-earners. In times of depression, when difficulty is experienced in disposing of finished products, weavers naturally prefer to leave to the unions the task of marketing. But when trade is brisk and times are prosperous, they generally work under the "yarn sale" system. Unions following this method sell the yarn generally on a credit basis to the weavers, who make their own marketing arrangements in neighbouring *hats* (village markets). A few enterprising Central Banks have occasionally tried to organise the supply of yarn to weavers by opening yarn banks as branches of Central Banks. But such operations have rarely proved successful.

Among the co-operative weaving societies of the province there is one which deserves special mention because of several features which differentiate it from other similar societies. The Bagerhat Weaving Union [1] is an organisation on factory basis and is the pioneer co-operative cotton mill in India. In regard to working capital, use of power-driven machinery and volume of sales it occupies a unique position among the co-operative societies of the province. It was registered at Kandarpara in the district of Khulna during 1922–23. The society consisted of workers who were mostly drawn from the middle-class people in the surrounding villages. The various operations connected with weaving were performed by different sets of persons in sheds put up by the society, which also provided occupation to the women in the villages. It

[1] The expression "union" as applied to this society is a misnomer, for it is an organisation of individuals and not of societies.

was expected that the venture would succeed in finding a solution of the problem of middle-class unemployment. The factory began its operations with hand-looms and with home-made yarn. But ere long power-looms and imported yarn were introduced. The progress of the union during 1924–36 will appear from the table given opposite.

In the second year of its working the society had twenty-five hand-looms and four power-looms, the preparatory processes being done by manual labour. Very soon it was decided to erect eight more power-looms. To finance this extension the Bengal Provincial Co-operative Bank granted it a cash credit of Rs. 4,000 on the guarantee of the Bagerhat Central Bank. But as this sum was insufficient for the purpose, the union utilised a considerable portion of its borrowed capital such as loans, deposits and drawings from cash credit in its block capital account. Its working capital on which it had to pay a high rate of interest was thus permanently locked in plant and fixtures. This arrangement proved extremely unsatisfactory from the point of view of financial organisation, and seriously handicapped the union in its operations. It was therefore decided to raise sufficient share capital with a view to setting free the working capital. The by-laws of the society were accordingly amended, and membership was thrown open to all co-operative societies of the province. It was further contemplated that the factory should be ultimately owned by the operatives themselves. To facilitate this transference of ownership the modified by-laws provided for the elimination in future of outside shareholders. Deductions were to be made from the weekly wages of workers, and the sums thus deducted were to be credited to the share capital account. When these accumulated deductions

TABLE XIII

Bagerhat Weaving Union, 1924–36

Year ending June of—	No. of Members	Sales of Goods, Rs.	Cost of Management, Rs.	Share Capital paid up, Rs.	Total Loans and Deposits held at the end of the Year from—		Working Capital, Rs.	Profit and Loss, Rs.	Reserve Fund, Rs.	Dividend Rate, %
					Members, Rs.	Provincial or Central Banks, Rs.				
1924	153	..	638	6,969	500	9,929	22,602	+1,614	..	..
1925	269	..	5,611	9,609	590	15,991	31,456	+926	223	..
1926	347	16,209	4,326	13,129	11,090	24,236	48,455	−1,645	..	..
1927	362	12,525	6,842	25,494	5,500	30,200	61,658	−14,625	464	..
1928	425	3,046	3,595	27,749	5,540	48,916	82,530	−10,317	224	..
1929	423	14,477	9,346	28,104	5,525	67,969	1,01,822	−10,249	224	..
1930	474	33,551	709	28,629	5,520	70,205	1,04,578	+55	224	..
1931	474	43,251	2,387	28,644	5,520	70,572	1,04,960	−5,777	224	..
1932	476	20,476	1,665	28,604	5,515	69,258	1,03,601	−4,592	224	..
1933	492	42,033	3,190	29,373	5,515	69,815	1,04,926	+760	223	..
1934	523	61,524	5,295	32,256	5,515	69,715	1,07,710	+3,467	224	..
1935	658	44,487	4,692	36,743	5,515	69,448	1,13,305	+1,432	1,359	..
1936	707	44,920	5,034	40,525	5,515	69,130	1,22,387	+1,038	2,217	..

were sufficiently large, the shares possessed by the outsiders were to be bought off and the factory would pass to the ownership of the operatives. But these projects have not materialised so far. The union has been handicapped by the fact that it has not always been in a position to work to its fullest capacity and thus secure the economies of an increased scale of production. Its difficulties have been aggravated by its inability to make adequate arrangements for the marketing of high-class textiles which have formed the principal lines of the factory's production.

Taking a broad view of the weaving societies of the province, it may be remarked that, apart from the lack of improved appliances and technical facilities, the difficulties experienced by them are those of finance and marketing. Due mainly to financial difficulties they are unable to maintain an expert staff, nor are they in a position to reduce costs of production by the adoption of latest technical improvements. The use of up-to-date looms, dyeing appliances, warping and sizing machinery is absolutely beyond the means of even the strongest of them. In these circumstances, competition from the products of power-looms with their new designs and fancy patterns has naturally placed the cottage industries at a disadvantage. The price paid by weaving societies in respect of yarn supplied to them by the District Unions has often been higher than that charged by dealers. The instalments fixed by the unions in regard to the payment of the price of appliances supplied to weavers have also been inordinately high. On top of this have come difficulties due to the lack of loyalty of members. They are eager to dispose of their products through unions in times of depression, but they secede when signs of trade revival are visible.

With a view to rehabilitating the hand-loom weaving industry and enabling the societies to remove these defects, the Government of India initiated in 1934 the policy of making grants to the provinces for the purpose of expenditure on approved schemes. The sum allocated to the Government of Bengal for this purpose was Rs. 33,000 in 1934–35. This sum enabled the Co-operative and Industries Departments to take up the work of reorganisation in 1935. Weaving and dyeing experts have been appointed by the district co-operative unions with a view to training the workers in new designs, and in the adoption of improved processes of production. In addition to these officers, supervisors have been employed who superintend the distribution of yarn, and ensure that the weavers actually carry out the directions given by weaving experts for the improvement of designs. Capital grants have also been made to enable societies to purchase improved looms and appliances.[1] The duty now devolves on the Bengal Provincial Industrial Society to ascertain the demand for yarn, and to supply the same to the district unions at the cheapest possible price. The organisation at the top has been improved with a view to facilitating the disposal of finished products. The Provincial Society is now aided by a Marketing Officer, a Designer and a number of canvassers who secure orders from Calcutta, supply new designs, and arrange for the marketing of goods. During the years 1934–37 more than Rs. 80,000 has been spent for the revival of hand-loom weaving. This is a move in the right direction, and if the work, so well begun, is continued for some years to come, there is no reason why the weaving group of co-operative societies should not become one of the most successful in the province.

[1] *Proceedings of the Eighth Industries Conference*, 1937.

CHAPTER VIII

ADMINISTRATION AND LEGISLATION

ATTENTION has been drawn in previous chapters to the fundamental fact that conditions of administration play an important part in the development of a strong and efficient co-operative organisation. Unfortunately the administrative aspect did not receive the attention it deserved in the formative period of the movement. It was, however, suddenly brought into prominence in 1929 and the following years, when low commodity prices and steadily mounting overdues brought about a disorganisation of the machinery of co-operative credit. Well-wishers of the movement all over India realised, as never before, the necessity of effecting an improvement in the tone of management of the societies. In our own province, the subordinate agency was strengthened for dealing with collections of arrears, and schemes were set on foot for imparting instruction to the staff in co-operative law and practice.

The superior staff of the Co-operative Department consists of a Registrar assisted by several Assistant Registrars. The audit work is conducted by the Chief Auditor with the help of five Divisional Auditors. It will appear from Table I that credit societies and Central Banks are not evenly distributed throughout the five divisions of the province.

In the circumstances the partition of the province into co-operative divisions coterminous with administrative divisions would have given rise to serious difficulties. It was therefore necessary to split up

some of the larger divisions and appoint additional Assistant Registrars to enable these officers to exercise effective control. But if the D and E class societies

TABLE I

DIVISIONAL DISTRIBUTION OF CREDIT SOCIETIES, 1934–35

Division	No. of Central Banks	Primary Societies	
		Agricultural	Non-agricultural
Presidency	21	3659	188
Burdwan	21	3727	78
Dacca	31	5709	106
Chittagong	16	2857	86
Rajshahi	29	3817	74

are liquidated in accordance with the suggestion put forward in Chapter II, it might be possible to reduce the superior establishment to some extent without any loss of efficiency.

Inspection and Supervision

Inspectors, auditors and supervisors constitute the subordinate staff. We have referred in a previous chapter[1] to the many duties that supervisors employed by Central Banks are expected to perform. It has been pointed out that it has not hitherto been possible for them to discharge all the duties allotted to them. What is true of supervisors is also largely true of the inspecting and audit staff. Table II overleaf will show the number of inspectors, auditors and supervisors employed during 1925–36.

The main duties of inspectors are propaganda, supervision and super-audit. They are expected to assist in the reconstruction of bad societies and in the disposal of "disputes" referred to them by the

[1] Chapter III.

TABLE II

STRENGTH OF THE SUBORDINATE STAFF, 1925–36

Year	No. of Societies, Agricultural and Non-agricultural *	Inspectors	Auditors	Supervisors
1925–26	12,704	75	95	303
1926–27	15,319	74	98	386
1927–28	17,978	75	98	448
1928–29	19,742	81	124	511
1929–30	22,390	80	184	585
1930–31	23,533	80	223	600
1931–32	23,634	82	223	593
1932–33	23,526	82	241	609
1933–34	23,334	84	241	628
1934–35	23,304	84	241	666
1935–36	23,390	84	241	669

* Figures exclude Central Banks, Producers' Unions and Supervising Unions.

Registrar.[1] Inquiries under section 35 of the Co-operative Societies Act into the constitution, working and financial condition of credit societies are also conducted by inspectors. In addition to these duties, inspectors have been called upon to carry out the statutory audit of co-operative societies [2] ever since the onset of the depression. They were further required to assist Central Banks in collecting overdues, as it was felt that any relaxation of efforts in this direction would bring serious loss to many of the Central Banks. It is thus evident that too much of the time and energy of the inspectors is wasted in doing work that should properly devolve on auditors and supervisors. The table given above will show that while the number of societies increased from 12,704 to 23,390 during 1925–36, the inspecting staff remained stationary for all practical purposes. It is hardly possible to expect an efficient system of control and supervision in these circumstances.

[1] Rule 22 under section 43, Co-operative Societies Act, 1912.

[2] *Annual Report on the Working of Co-operative Societies, Bengal*, 1927–28.

The truth is that the distribution of functions between inspectors, auditors and supervisors lacks definiteness and precision and has proceeded along haphazard lines. Work that should properly be done by auditors has sometimes been assigned to inspectors. In the difficult years that followed the slump, inspectors had to take part in collection work. Propaganda, education of the people in co-operative principles and general direction — work that should form the principal duties of the inspectors — are expected to be performed by supervisors. The following passage, taken from the *Annual Report on the Working of Co-operative Societies in Bengal*, 1927–28, will illustrate the state of confusion that exists :

> "Under the existing conditions the Inspectors have little time to devote to the education of members of rural societies. .. . . The task of educating the individual member in the fundamental principles of co-operation and of inculcating in him the ideas of better farming, better business and better living must, therefore, be entrusted to the staff of supervisors who are in constant and immediate touch with the village societies."

All this vicious mixture of functions should cease, and work should be assigned to inspectors, auditors and supervisors according to a well-planned scheme of reorganisation. It is true that functions like supervision, inspection and audit are closely allied and do not permit of a clear-cut division, particularly in the case of a rudimentary organisation like a primary credit society. But at the same time one cannot resist the conclusion that the distribution of functions in this province has been the haphazard result of desperate attempts to meet the exigencies of transitory emergency.

Audit

In 1935–36 there were 241 auditors employed by the Co-operative Department. The expenditure incurred by the Government on the audit staff is met by an audit fee on working capital levied on all co-operative societies. The scale of fees levied is as follows:

(*a*) Ten annas per Rs. 100 of working capital subject to the maximum of Rs. 140 in the case of a society other than a Central Society.

(*b*) Five annas per Rs. 100 of working capital subject to a maximum of Rs. 350 in the case of a Central Society.

Anti-malarial societies and societies less than eighteen months old are exempted from the payment of such fees. The expenditure incurred by the Government on account of their audit is met out of provincial revenues. Nor is the fee collected chargeable with other expenses incurred by the Government on account of audit, such as those for inspectors and other supervising officers of the Co-operative Department who perform duties in connection with audit. Arrangements are now in progress for dividing the province into a number of audit circles. Each of these circles is being placed in charge of an auditor who, in addition to audit work, has to help in the collection of arrears. Some of the societies are allowed to have their accounts audited by qualified auditors who are selected from a list approved by the Registrar of Co-operative Societies.

The Central Banks are expected to advance the audit fees assessed on primary societies and then realise the amount due from each society. The amount realised has usually been in excess of that actually spent by the Government for the maintenance of the audit staff.

This will appear from the following figures showing the fees collected, and the amount actually spent by the Government of Bengal during 1925–36:

TABLE III

AUDIT FEES, 1925–36.

Year	Fees Collected, Rs.	Expenditure on Audit Staff *
1925–26	1,60,682	1,00,528
1926–27	1,83,803	1,25,612
1927–28	2,21,542	1,25,293
1928–29	2,43,697	1,43,169
1929–30	3,10,671	1,51,030
1930–31	3,47,030	2,19,593
1931–32	3,36,925	2,62,929
1932–33	3,73,726	2,92,191
1933–34	3,86,218	3,37,850
1934–35	3,51,167	3,65,467†
1935–36	4,20,580	4,03,034

* Some of these figures include expenditure which is properly chargeable to provincial revenue.

† Difficulties of collection are responsible for the excess of expenditure over receipts.

There are three possible methods of financing the audit expenses of agricultural credit societies. Audit may be undertaken by Government free of charge, or it may be financed by means of fees levied on the societies. Until recently in the Bombay Presidency the audit of all agricultural societies and of smaller non-agricultural societies was conducted by Government free of cost. The system was, however, abandoned in 1931[1] when it was decided to levy an audit fee on societies in proportion to working capital In the province of Bihar and Orissa a different system prevailed, under which audit expenses were shared between the societies and Government. In 1916 the Bihar and Orissa Co-operative Federation was started, and the control of audit was nominally entrusted to this body.

[1] *Tenth Conference of Registrars of Co-operative Societies*, 1928, pp. 32-7. See also article in the *Indian Co-operative Review*, January-March 1937, p. 55.

Under the by-laws, however, the power of audit was actually vested in the Registrar, as *ex-officio* Governor of the Federation. To ensure a more democratic control, a new decentralised constitution was drafted in 1933–34 under which it was proposed to set up new Divisional Boards.[1] While the Co-operative Federation would remain responsible for policy, training and audit, the Divisional Boards were charged with definite functions in regard to organisation, control and propaganda. In 1933–34 the expenditure on audit was Rs. 2,00,800. Out of this a sum of about Rs. 1,61,000 was met out of fees levied on societies, while the balance was met out of Government subsidy.

The Bihar and Orissa plan for audit tried to reconcile two conflicting aims and ideals. To assure the investing public that audit was properly conducted under Government auspices, the Registrar was appointed *ex-officio* Governor, a designation subsequently changed to President. To introduce at the same time a semblance of democratic control, the paraphernalia of a Federation were set up. It was this attempt to reconcile these two different objects that vitiated the whole scheme. The success of the co-operative movement depends upon competent and fearless audit, and no system can be regarded as perfect which tries to combine with this object an altogether different and to some extent an incompatible one. The Central Banks were adequately represented on the Federation, and it was hardly expected that their delegates would always " resist the temptation of finding fault with their fault-finders ", the auditors. Such criticism must necessarily impair the quality of audit.

The Indian Central Banking Inquiry Committee had recommended that the work of audit should be en-

[1] *Report on the Working of Co-operative Societies, Bihar and Orissa,* 1934.

trusted to district audit unions composed of representatives of Central Banks and primary societies. It is now fairly evident that this plan is unworkable in India.[1] Democratic control of audit is not likely to be a success in this land, however efficient it may have proved in Europe. The choice therefore lies between full-fledged Government audit financed by Government, and audit of the kind prevailing in Bengal financed out of fees given to the Government by co-operative societies.

That Government audit will inspire greater public confidence is undeniable. The health of the movement depends upon enlisting the support of auditors who will do their work efficiently without fear or favour. Alike in the interest of purity and independence it is desirable that audit should be financed entirely by the Government. Opinion was expressed at the Tenth Conference of Registrars of Co-operative Societies held in 1928, that if Government contributed largely towards the cost of audit or even gave it free, Government could exercise far greater control and could insist on such audit being satisfactory. The Conference passed the following resolution :

> "This Conference agrees that education and supervision is of the highest importance, and is of opinion that Government should, where necessary, make substantial contribution towards the cost of education and supervision. . . . At the same time it sees no reason why, where audit is given free or where subsidies are given for audit, these should cease to be paid. In provinces where no contribution is now made, the Conference sees no objection in principle to the Government making any contribution required to make it efficient."

[1] Pantulu, *Co-operation in India*, 1938, p. 24.

A distinction may be drawn in this connection between audit and supervision. Audit is a statutory duty cast on the Government, while supervision is not. It is, therefore, reasonable to expect that societies should pay for their own supervision, which they actually do. For supervisors are now paid by Central Banks which reimburse themselves out of the margin between their borrowing and lending rates. But there does not seem to exist any justification for making societies pay for their audit as well. There is still less justification for the system in vogue in Bengal under which the fees realised from societies are not utilised for the purpose for which such fees are charged. at least [illegible]

The argument is advanced that if audit is done by Government at public expense, it will make the co-operative movement official-ridden. This argument is the least convincing of the many that have been advanced in this connection for the maintenance of the *status quo* in Bengal. The co-operative movement owes its origin to Government initiative. It has been nurtured for years by Government, and is still dependent on Government support for a variety of privileges. Without the fostering care of Government it would have collapsed long ago. To argue that payment of auditors' salaries by Government will at once convert a vigorous organisation deriving its support from the zeal ~~and enthusiasm~~ of the people into a State-controlled movement is to be oblivious of facts which are patent to everybody. It has also been contended that the cost of auditing healthy societies should not be a charge on general tax-payers. But it is well worth remembering that the general tax-payers are vitally interested in the movement, as it is they who will have to come to the rescue of co-operative banks in

emergencies.[1] The tax-payers have thus a right to expect that financial irregularities should be as few as possible, as a result of audit undertaken by an independent and impartial body of men.[2]

On more than one occasion the societies and Central Banks have withheld payment of audit fees in this province as a protest against the failure of the Department to maintain an adequate and efficient audit staff. The Central Banks, already hard hit by the depression, have experienced great difficulties in recent years in advancing fees on behalf of their affiliated societies.[3] The manner in which audit fees are assessed on the working capital of societies is also a perennial source of irritation to the credit societies. Thus assets which have no existence in fact—which have become irrecoverable owing to bad and injudicious investments, but which appear in the profit and loss account, are chargeable with audit fees. Representatives of credit societies naturally resent when they are called upon to pay fees on working capital which has only an imaginary existence. The present system should, therefore, be done away with, and audit undertaken by Government free of cost. At the same time audit officers should be relieved of the administrative work that they are now called upon to do. A separation is needed between ordinary administrative work and audit in the interest of efficient audit. It is also difficult to reconcile oneself to the position under which the audit staff remains under the control of a department the accounts of which the auditors are called upon to scrutinise.

[1] When the Bengal Provincial Co-operative Bank sustained losses in connection with the jute sale societies the tax-payers had to make good the loss.

[2] It is worth noting that in Berar audit is done by Government at their cost. *Indian Co-operative Review*, June 1938, p. 294.

[3] Some of the larger Central Banks have to advance between seven and eight thousand rupees on behalf of their affiliated societies.

Financial propriety requires that the staff should be removed from the control of the Co-operative Department. Audit of co-operative societies should be placed on the same footing as that of local bodies such as Municipalities and District Boards.

Legislation

The need has also been felt for some time past for a revision of the existing statute which has for nearly three decades guided the Registrar in the formulation of policy and the control of the co-operative organisation. Conferences of workers in the cause of co-operation in Bengal have from time to time urged the need for the amendment of some of the provisions of Act II of 1912 which have hindered the primary co-operative societies in the collection of their dues. In some provinces the Act of 1912 has already been replaced by provincial legislation suited to the needs of the areas concerned. It was, therefore, felt that legislation on comprehensive lines should be introduced in Bengal, particularly in view of the existing decadent condition of the societies.

Accordingly the Co-operative Societies Bill was introduced in the Bengal Legislative Assembly in August 1938, with a view to tackling the problems of co-operative finance and control in all their bearings. The general tenor of the measure is to vest increased powers in the hands of the Registrar and his Department. This will be evident from a brief résumé of the important clauses of the Bill. It seeks to control office-bearers who are recalcitrant or dishonest, by a variety of provisions. To penalise members of the managing committee, who appropriate a large share of available funds, the Registrar is authorised to direct payment of dues.[1]

[1] Section 120 of the Draft Bill.

Benami transactions are sought to be curtailed by giving power to the Registrar to call for information.[1] Losses sustained by a society due to non-compliance with law or culpable negligence are penalised.[2] As a last resort committees of management may be reconstituted or even superseded for persistent mismanagement.[3]

Dishonest members of societies, not being office-bearers, are also brought under the penal provisions of the new measure. Fraudulent disposal of property, movable or immovable, with a view to defeating the execution of an award, may be cancelled, and the Registrar is given the power to direct the conditional attachment of property.[4] A society is given a "first charge" in respect of assets created out of a loan granted by it, and any disposal of property in contravention of this charge is made a criminal offence.[5] Money is to be used strictly for specific purposes for which it is granted, and violation of this clause will render a person liable to the payment of a fine.[6] Members are also required to furnish information regarding their financial position. It is expected that this provision will prevent over-financing of members, and encourage affluent persons to join a society without any fear of being penalised by the conditions of unlimited liability.[7]

To facilitate the recovery of sums due to any co-operative society under an order, decision or award, the stringent provisions of the Public Demands Recovery Act are made applicable.[8] Land Mortgage Banks are given the power to realise their dues by distraint or sale of agricultural produce, and also to

[1] Section 41 of the Draft Bill.
[2] Section 121.
[3] Section 25.
[4] Section 119.
[5] Section 47.
[6] Sections 60 and 122.
[7] Section 59.
[8] Section 124.

bring the mortgaged lands to sale without the intervention of courts.[1]

It will hardly be denied that the powers given to the Registrar in the Draft Bill are drastic. If these powers are actually exercised, administrative interference in the internal management of the co-operative societies will become a matter of everyday occurrence. During the early years of the co-operative movement it was held that the ideal aimed at should be the progressive realisation of the twin principles of self-sufficiency and autonomy. The goal that co-operators set before them was one of gradual relaxation of official control, with a view to making the societies as democratic as possible. It is indeed sad to reflect that there should arise a need for stricter official control with the passing of years. Our present difficulties are largely due to the fact that in our zeal for expansion we neglected altogether the education along co-operative lines of members and office-bearers of village societies. They were not trained to assume the responsibility thrown on them. During the initial stages there was indeed some attempt to instruct the members regarding their duties and obligations. But with increase in numbers this aspect was sadly neglected, and the societies degenerated into soulless institutions without a spark of that idealism which should inspire the true co-operator in his dealings with fellow men.

A comprehensive scheme for the rehabilitation of the movement will require remedies of two different kinds. There is, first of all, the immediate need for setting the movement on its feet, and the removal of those defects — financial and administrative — to which reference has been made in some of the previous chapters. In the process of reconstruction, societies

[1] Sections 94 and 96.

which are not in a position to meet their liabilities in any conceivable circumstance have to be liquidated, as suggested in Chapter II. At the same time it may be necessary to render temporary financial assistance in the shape of loans and subsidies to the better class of societies which possess sufficient assets to meet their liabilities either in full or to a large extent.

When the immediate difficulties have thus been overcome it will then be necessary to undertake long-term planning by the adoption of measures which, from their very nature, cannot bear fruit in the near future. There is an urgent need in this province for the training of office-bearers, and also for an intensive campaign for the education of the masses in the principles of co-operation. These measures should carry the gospel of co-operation to the rural people and shape them into true co-operators so that in their daily lives they may be animated by the spirit of service. It is hardly necessary to point out that if the Bengal Co-operative Societies Bill of 1938 is permanently placed on the statute book, there will emerge a form of co-operation which is drilled and regimented by the State. But State-controlled co-operation, while it would no doubt enable the Government to cope with the present emergency, will hardly offer a permanent solution towards our endeavour to build up a vigorous and self-reliant movement.

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THE END

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